Edelweiss Financial Services Limited
Q2 FY 2018 Conference Call Transcript
November 06, 2017

Moderator

Good Day, Ladies and Gentlemen and Welcome to the Q2 FY 2018 Earnings Conference Call of Edelweiss Financial Services Limited. As a reminder all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, sir!

Shiv Muttoo

Thanks, Margret. Good Evening, Everyone. Thank you for joining us on the Q2 FY 2018 Results Conference Call of Edelweiss Financial Services Limited.

We have with us today Mr. Rashesh Shah -- Chairman and CEO, Edelweiss Group; Mr. Himanshu Kaji -- Executive Director and Group COO; and Mr. S. Ranganathan -- President and Chief Financial Officer.

We also have with us from the stakeholder's team, Ramya Rajagopalan -- Head Corporate Development; Salil Bawa -- Head and Senior Vice President, Stakeholder Relations and Samridhi Deorah, Senior Manager, Stakeholder Relations.

I would now like to hand over the call to Salil to take it forward.

Salil Bawa

Thank you, Shiv. Our Press Release, Financial Statements and Investor Presentation for H1 FY 2018 have been circulated and are also available on our website, www.edelweissfin.com.

Certain statements to be made on this conference call are forward-looking statements. All statements regarding our expected financial condition and results of operations, business, plans, objectives, strategies, goals and prospects are forward-looking statements.

Forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. These statements are based on our management's belief and assumptions, which in turn are based on currently available information. Although we believe, the assumptions upon which these forward-looking statements are based are reasonable; any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could prove to be inaccurate.

We have outlined these risks and uncertainties in the first slide of our Investor Presentation which has been circulated and is also on our website. Investors are requested to please refer to that slide.

I will hand over the call to Mr. Rashesh Shah.

Rashesh Shah Yes. Thank You, Salil, and Good Afternoon to all of you. We are doing this in a slightly different way. Today, I am in Hong Kong. But since we had this call already planned, we have decided we will go ahead with this. So while all my colleagues are in Mumbai. I am currently talking to all of you from Hong Kong.

So again, good to see all of you. And as you would have seen, we announced our results on Friday. I am happy to report that we showed a 45% consolidated profit growth on a Y-o-Y basis. And ex-Insurance, we made a profit after tax of Rs. 234 crore, which is a 41% growth Y-o-Y. So, we continue our growth rate now. Over 26 quarters, we have grown our consolidated profit after tax at 37%. Our diversified financial services model has been a key model that has worked for us in the last few years. We have been very convinced as we started off on the re-engineering of Edelweiss business model about ten years ago, that having a broad-based diversified model, almost bank-like but in a non-bank structure, which has three verticals: Credit, Franchise and Advisory and Insurance. As you know, even in Credit we have: Corporate Credit, Retail Credit and Distressed Credit. And in Franchise and Advisory we have: Asset Management, Wealth Management, Capital Markets. So, having this broad range of businesses has been made possible because of the culture and the people we have.

Overall, we are happy with this growth. As you would have seen our gross balance sheet is now at almost Rs. 55,000 crore and the net balance sheet after netting-off current liabilities is Rs. 47,800 crore which has grown at 33%. So we continue this formula that we have that whatever is the balance sheet growth your profit should be about 10 percentage points higher than that. So, we have a 33% growth in balance sheet and a 45% growth in profit.

But along with the balance sheet we also have a fairly robust Franchise and Advisory business, which shows up in the Assets under Management and Advice which has now crossed Rs. 143,000 crore, almost $22-23 billion and that is up 78% on a Y-o-Y basis. So, our Asset Management, Wealth Management, ARC assets have all grown and the total assets both on balance sheet and the ones under advice has now crossed Rs. 1,90,000 crore. So this is a fairly unique model which combines both credit and advisory but also on balance sheet and off balance sheet.

We are happy with our profitability ratios. Now, we are 22.2% ROE excluding Insurance and about 18.3% on a consolidated basis. As you would know, we exclude Insurance numbers because though it is aggregated in our P&L numbers the way we have structured and capitalized the Insurance venture as a JV partnership with Tokio Marine, it is fairly ring fenced and a large part of the capital contribution also comes from them.

Overall, ROA ex-Insurance is about 2.5% and consolidated ROA is about 2%. So all round fairly good numbers. We are happy with that. We, obviously, want to continue to improve on this as we go forward. What we have also done is the liquidity conditions have been fairly good and we have used this to push the envelope on the liability side, not only has our cost of funds improved as you would have seen from the last year to this year, there is almost a 40 basis-point improvement in the cost of funds for the Credit business. But overall, we have made the balance sheet stronger by elongating the tenure, the liability tenure has

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got elongated and we continue to maintain a very healthy and robust liquidity cushion which is now 10% of our total assets.

Our gross equity for the group level now has crossed Rs. 5,400 crore as on 30th September. Actually, I think, in a way, maybe a lot of you who have been on this call for a long time would have got tired because it continues to be more of the same as we go along.

On all the businesses, our cost-to-income ratio has come down. So overall, we have shown a significant growth in the retail credit business, a reduction in cost-to-income ratio across the book and we have maintained stable asset quality. Our overall GNPA stands at 1.74% and the NNPA is at about 0.66%.

As many of you may know, we do focus a lot more on collateralized and secured credit, both in the retail book and the corporate book. As a result of that, even where the NPA's are there, we do expect that we should have a high recoverability because we have seen that the loss given default on collateralized credit, securitized credit is fairly low as compared to unsecured credit.

Overall, our ARC continues to grow. We maintain our leadership position in the ARC business. And I am sure quite of few of you will have questions on that. But we do think that the couple of events that have happened, one is this entire IBC Code and the NCLT process, insolvency process that is going on is very healthy and will actually bring a lot of the assets to final resolution much more quickly because what used to happen earlier when the Bankruptcy Code was not there, it was a bilateral negotiation between the promoter and the bank. And very often, the promoters would have an upper hand because they were still in possession of the asset.

Now with NCLT, the fortunes have changed because now the asset is in the hands of the bank because our entire Bankruptcy Code is based on creditor in possession model. And now, the promoters have to bid alongside many other bidders to get back that asset and this has shifted the power equation more in favor of the creditors, the banks and the ARCs and we are seeing this play out fairly well.

The other opportunity is this entire bank recap one which will allow the banks to take provisioning more aggressively. As many of you may remember, the entire NPA clean-up process starts off with provisioning, then goes into restructuring, then goes to revival, and then recoveries. So, I think, the first phase of this, which is the entire provisioning part, will get over. We think the provision cycle is now only another four quarters to five quarters. There is a fair amount of quantification that has happened that people know how much has to be provided. And instead of it being provided in a slow manner over many quarters, we think over the next four quarters or five quarters entire provisioning will be over and then we can really in earnest get down to the business of restructuring, revival and recoveries, which will go on for another four years - five years. And this will be good because one banks are provided their ability to use the ARC partnership structure will be a lot more robust.

On the Franchise and Advisory businesses, we continue to grow. We think that Wealth Management is a huge opportunity and the affluent client segment, where we have a special focus has been growing fairly robustly. We have shown a 73% growth in Assets under Advice. Our Assets under Advice are now Rs. 76,300 crore which we think is about 4% of the total market wealth management in India and we are the third-largest wealth manager in India.

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We continue to aim for yields of between 70 basis points to 80 basis points on this. Our yield in the first-half of this year is about 71 basis points on the average Assets under Advice.

To build a platform in this business needs a lot of investment, both in people, training and the platform, technology and all. We have invested a lot in technology, whether it is in robo advisory, whether it is in account opening, whether it is into mobile platform, and in omni-channel CRM for the customers. We think, technology is going to be one of the important drivers along with people. So last few years, we have hired lot of people and trained them. But in the last year or so technology has been one of the big areas of focus in this business.

On Asset Management, we continue to be the leaders in alternatives. We now have Rs. 13,500 crore of AUM in alternatives. Our Mutual Fund continues to grow slowly and steadily. Our assets are Rs. 8,600 crore in the Mutual Fund and in alternatives, we do believe that the private credit space is the more exciting one which looks at Special Situations, Real Estate Credit, Distressed Credit and we do hope that as India evolves, as this entire banking and the credit space undergoes a big change, Private Credit will play a big role in that.

So finally, Capital Market continues to do well. Our leadership in ECM and DCM continues in a very robust way. We do think the Debt Capital Markets are as important as Equity Capital Markets and we have seen a lot of growth in that.

Insurance, our pace continues. We are still a very small player. The premium income was Rs. 121 crore for Q2 as compared to Rs. 85 crore last year. So that has grown by 43% growth in premium. Our embedded value now is about Rs. 1,026 crore in the Insurance business. We have seen good sales in the unit policies and the assured policies are also doing well as interest rates are coming down. So overall, we continue to focus on the people, clients, cost, risk and technology, and there are a lot of initiatives that continue in this area.

Finally, I think all of us are aware of the trends which are underway where we are one of the beneficiaries, but a lot of other private sector Financial Services companies are also capitalizing on that and that is, India's age of compounding. India is now growing, in nominal terms India's growth is about 12% to 13% on the GDP but the Financial Services various segments are growing at between 16% to 20% per annum on a fairly good scale now.

So I think, compounding is going on. We are seeing democratization of credit underway. A lot of people who could not borrow money earlier for housing and other needs are able to borrow. Thirdly, we are seeing the financialization of household savings and the move away from banks to non-banks. We are also seeing the privatization of the Indian economy, especially the Financial Services space.

And finally, there will always be things to worry about. So there could be headwinds as we go forward within global markets have been steady for the last few months and there would always be an upheaval. And wherever there is upheaval in the global markets, India will be impacted by that hopefully, only in the short-term but India will be impacted. We do think that corporate earnings growth still eludes us, and we hope that another couple of quarters we should start seeing an uptick in corporate earnings. And finally, the capital investment cycle which we still think is about at least 18 months away. And lastly, the Stressed Asset Cleanup should happen as rapidly as possible especially with the re-capitalization that has happened.

So along with that, again, we thank all the stakeholders, all the investors, all the analysts, everybody who has supported us, interacted with us in the last few months.

And along with that, I would like to hand this over to my colleague and CFO of our Group, S. Ranganathan. S. R., will you take this forward? And then we will be happy to answer your questions afterwards.

S. Ranganathan Sure, Rashesh. Thank you very much. And thank you all for attending this call. Let me as usual take you through the earnings update for the quarter that has gone by.

Our total revenues for Q2 FY 2018 is Rs. 2,017 crore, up 26% year-on-year.

Consolidated profit after tax of Rs. 209 crore compares to Rs. 144 crore for Q2 FY 2017 which is up 45% year-on-year.

Ex-Insurance, profit after tax of Rs. 234 crore, Rs. 166 crore for Q2 FY 2017 is up by 41% year-on-year.

The net balance sheet grew by 33% to Rs. 47,800 crore and the gross balance sheet at Rs. 54,000 crore.

Looking at the business-wise contribution to our profit after tax. Our Credit business PAT for the quarter grew year-on-year by 40% at Rs. 149 crore. Franchise and Advisory business profit after tax for Q2 was at Rs. 66 crore and year-on-year growth of 123%.

Our operating efficiency has improved as well with our ex-Insurance cost-to-income ratio for the quarter at 47% an improvement of 10 basis points over Q2 FY 2017.

Consolidated return on equity for the quarter stood at 18.3% and ex-Insurance ROE of 22.2%.

Consolidated return an asset for the quarter stood at 2% and ex-Insurance ROA at 2.5%.

The asset quality remains fairly stable with various costs under control. Our GNPA was at 1.74% and NNPA at 0.66% with the total provision cover of 86%.

Coming to individual heads of income.

Our Fee and Commission income clocked a year-on-year growth of 97% and stood at Rs. 473 crore for Q2.

Fund based income grew by 13% year-on-year to Rs. 1,381 crore in Q2 FY 2018.

Life Insurance business continues to register one of the fastest growths in individual APE and recorded a premium income of Rs. 121 crore for Q2 FY 2018, a growth of 43%.

On the cost side, borrowings at the end of the quarter stood at Rs. 42,335 crore compared to Rs. 30,964 crore, reflecting a scale up in our operations leading to a 25% increase in the finance cost on a year-on-year basis.

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However, our weighted average cost of debt for the quarter stands at around 9.5% and the NIMs have remained strong.

Our headcount as at the end of September 2017 stood at 8,354 as compared to 6,437 a year ago. This has led to a year-on-year growth in the total expenses, including employee cost of 18% which is in line with our revenue growth.

Now if I look at our balance sheet as I mentioned, our balance sheet grew year-on-year of 33%.

Our consolidated capital adequacy as at the end of Q2 FY 2018 was 16.75%. We continue to have a positive asset liability match across all duration.

Our balance sheet management unit manages the ALM and the liquidity risk under the aegis of the asset liability committee. We continue to diversify our sources of borrowing with banks now accounting for 34% of our total borrowing and another 32% coming from mutual funds. We carry a liquidity cushion of Rs. 4,800 crore as on 30th September which is roughly 10% of our balance sheet size. The debt-to-equity ratio excluding treasury assets stands at 5.6 times.

During the quarter, we acquired 7.8% minority stake in one of our subsidiaries, ECL Finance. Consequently, ECL Finance Limited is now a wholly owned subsidiary of the group.

Turning to highlights of the Credit business:

Our Credit book stood at Rs. 32,540 crore as at the end of Q2 FY 2018, a year-on-year growth of 31%.

The Retail Credit book which combines for retail mortgages, SME and business loans among others grew year-on-year at 40% with the retail mix increasing to 36% as compared to 34% a year ago.

The Corporate Credit book continues to do well in the structured, collateralized credit and wholesale mortgages. We continue to manage the risk in this book efficiently avoiding any kind of undue sector or industry concentration.

The asset quality in the credit book continues to be under control with gross NPA at the end of Q2 FY 2018 at 1.74% and net NPA of 0.66% and a total provision cover at 86%.

Our capital employed in Distressed Credit business stood at Rs. 5,359 crore, while the AUM for this business is at Rs. 42,800 crore. The cost-to-income ratio for the Credit business stands at 36% for this quarter.

Looking at our Franchise and Advisory business which comprises of Wealth Management, Asset Management, and Capital Markets Wealth AUAs continue to scale up. With a year-on-year growth of 73% it stood at Rs. 76,300 crore as on Q2 FY 2018. We are on track in building up RM capacity in this business with 25 RMs added in the first-half of the year. Led by new fundraising in our Alternate Assets and Mutual Funds, AUMs premiums of the Asset Management business grew year-on-year by 223% and stood at Rs. 22,100 crore at the end of Q2 FY 2018.

Our Capital Market business continued to display strong performance. Our market share in CP placement was upwards of 22% in Q2 FY 2018.

In the Equity Capital Markets space, we successfully closed four deals during this quarter.

Coming to Life Insurance business:

Our premium income grew by 43% year-on-year to Rs. 121 crore, with a growth of 37% in Individual APE.

During the quarter, we reached a landmark 100 branches in our Life Insurance business. We recently launched a ULIP product, Wealth Ultima, that won 2 prestigious awards.

So that is all from me. Thanks once again. We will be more than happy to take any questions that you may have.

Moderator Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Vishal Modi from May Bank. Please go ahead.

Vishal Modi I have couple of questions. First is on our developer financing book. So after many quarters, we are seeing a bit of sluggishness in this. So, what is your view on this piece of business especially after the changes that have happened in the industry with RERA coming in, etc.? So just wanted to know your views on this part of the business.

Rashesh Shah I think actually the good thing about what has happened in the industry is this change in the law. I think the Real Estate Act is a game changer. But if you see most of the developer financing books, whether it is HDFC, Piramal, Indiabulls, all of us, a lot of the conditions that we used to insist on were actually are now what has become part and parcel of the law you know things like title clearance and financial closure and all of that. So most of the developers who were funded by organized players have been able to meet the requirements of RERA fairly easily. We also see that there has been a slowdown of new launches from the last year, year and half and even going forward, the new launches will slow which will allow some price strengthening to happen and we have started seeing that in the middle income and the lower income part of it. We are also seeing that in spite of the demonetization and things like GST, sales have not slowed down for at least the developers that we have, the pace continues. There are some micro markets where there is over-capacity but also the housing market has become very price sensitive. So wherever you cut prices by 5% - 10% we have seen a pick-up in sales out there. So currently, no stress or area of concern in the developer book, not just for us but across the board and we feel that the slowdown in the launches and given that a lot of the smaller players will start going out in the market for the organized player it is going to be a great opportunity. So we actually are more bullish in the next year and half years. And if you look at the mortgage the new home buying and registrations and all that has been fairly robust. Also, we were largely focused in Mumbai and especially in Mumbai, in the new Mumbai and outskirts like Mira Road, Dahisar, Bhandup and Mulund and all of those places we are seeing a fair amount of robustness. We are also present in Bangalore and NCR. NCR largely Noida because Noida market is still a very good price sensitive market. Gurgaon is not as price sensitive and hence the sales off take haven’t been strong out there. We do not have a large presence in Gurgaon. We also have some presence in Chennai, Hyderabad and Pune. But I think Bombay (Mumbai) especially outskirts of Bombay (Mumbai) we are still seeing a lot of robust activity. Bangalore has been a very strong market so not much concern or area on that. Even if you look at the banks NPA portfolio, you will find the real estate as an NPA has not grown in the last four years - five years and it is not a large part of that NPA portfolio. A large part of NPA in banks still consists of either steel, cement, power,

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roads and if there is real estate, it is mainly in the hotel industry. But in the housing part of real estate, there is not a lot of stress.

Vishal Modi Right. So sir, is it fair to assume that probably for a short while we will see a little low growth. Once things stabilize, probably we will see some kind of pick-up from this book as well, right?

Rashesh Shah For us, what we are doing is, we are not growing this book aggressively because we have an asset management structure, and we are raising almost $800 million fund for real estate credit and incrementally what we are doing is, any new proposal is shared between our NBFC and that fund. So earlier when we used to do a Rs. 100 crore deal entire Rs. 100 crore would be on the NBFC book. Now we are increasingly doing about Rs. 25-30 crore on our book and the balance goes into the fund. So you may not see equivalent growth in our own book. But I think, on the asset management side, there will be growth and we still think actually because of the new act, we think the need for structured credit will go up because structured credit actually replaces customer advances. Earlier a large part of the housing project was funded by customer advances last four years – five-year years anyway customer advances which used to be as high as 70% - 75% of a project had already gone down to about 50% - 55%. We think on a long-term basis customer advances will be only 35% to 40% of the project and the balance will have to be equity, CASA equity, structured finance, and construction finance.

Vishal Modi Right. Sir, thanks. Second bit is on the ECL acquisition. So if you can provide a bit more detail on when exactly was it done and some bit of pricing on that? And also, what would have been the impact on our P&L for the quarter with this acquisition?

Himanshu Kaji This acquisition happened in the last ten days of the quarter and therefore, there is not much of an impact in the current quarter on that. It is now a wholly-owned subsidiary, so the full impact will come in the current quarter.

Vishal Modi Right, okay. And on the price of that, from whom did we acquire?

Himanshu Kaji We have a confidentiality agreement.

Moderator Thank you. The next question is from the line of Seshadri Sen from JPMorgan. Please go ahead.

Seshadri Sen I have a question on the entire funding environment. We have seen the Government bond yield start to edge up, though to be fair corporate, spreads have also been compressing at the same time. If you take a six month to one ear view, the NBFCs in general and you in specific had a very comfortable environment for funding for the last say one year or two years. If given that bond yields seem to be heading up, surplus liquidity may be sucked up, if the bank recap goes through they may start lending more that would have further negatively impact liquidity. How do you see your funding environment pan out over the next two years to three years? Also, comment on where do you see your ratings? Do you see any scope for ratings upgrade? And how do you see your funding mix as well going forward? You do have a fairly large exposure to banks. Will that continue? Color would be appreciated.

Rashesh Shah If you see in this first-half actually our average cost of funds has come down. And the reason for that is a lot of the loans that you take from the banks because we borrow both cash credit as well as terms loans from the banks. Even cash credit, there is an annual reset on that. So, a lot of the bank borrowing not just for us but I think, for all the NBFCs were not getting re-priced downwards as quickly as possible. And I think, in the last five months - six months that re-pricing effect had

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started to come in because though your bond yields may have tightened because of the recap news, the banks actually are still bringing down their rates. And the reason for that is, you know with this recap what banks are going to get is equity capital. Banks were never short of liquidity. In fact, after demonetization, but even before demonetization banks have always had a lot of liquidity. But earlier, they were hesitant to cut rates. Now, in the last one year, we have seen banks have been open to cutting rates, so-called transmission has started happening. I personally do not think we have seen the end of the transmission cycle because for three years when the rate cuts were happening, the bond yields were coming down, but the banks were not really bringing down the yields only. In the last one year the bank borrowing has also started becoming cheaper. I think, that cycle should continue for the next one year - one and half years because this re-pricing of the MCLR and all that will go on. Also, banks were never short of liquidity, they were short of the equity capital. The reason they could not take aggressive provisioning is because they never had equity and if they did that then their capital adequacy will fall below the threshold, or they will be put under PCA by RBI. So the bank recap will give them equity capital which will allow them to aggressively start providing. So I do not see that having a lot of impact on cost of funds as a whole, to be honest with you. I do not think, I can take a three-year view on interest rate cycle to be honest with you. But we do believe that this entire disintermediation of the banking segment which is going on, while more and more money is pouring into Mutual Funds and Insurance, by our estimate if the total banking assets are about Rs. 125 trillion, the total Mutual Fund and Insurance assets are now crossing almost Rs. 50 trillion. So I think, the alternates especially the foreigners also coming into the corporate bond market and all that will not allow the yields to go up a lot and as long as Government fiscal deficit is under control and the capital investment cycle is not reviving. I think, the credit tightening will happen when the CAPEX cycle starts because until the CAPEX cycle starts I do not think overall credit growth will also grow more than 14% - 15%. To just think about it in perspective for the last 20 years India's credit growth has been 17% to 18% per annum. For the last four years, we have gone down to 12% to 13% credit growth for the system as a whole. Though the Government banks have been growing at only 4% - 5%, the system as a whole is only growing at 12% - 13% and unless the total system credit growth crosses 17% - 18% I think, cost of funding and all going up significantly is hard to see. But can it go by 25, 30, 40 basis point up and down? That I do not think. I think, anything within the 50 - 75 basis point range over a year and all will not make a lot of difference to most of the NBFCs and as you have seen our NIMs and all have been fairly stable. And I think, we feel our NIM should stay for the credit book between 7% to 8% in that range.

Seshadri Sen Thanks, that is a useful feedback. A couple of follow-ups if I may. One is that if you look at your funding profile you are about 34% banks and 32% Mutual Funds. Would that tilt a little more towards the Mutual Funds over a longer-longer time period? Also in case bond yields do move up and I do agree with you that at the moment I want to take a two year view they are unlikely to. How much pricing power do you reckon you have to be able to pass this on to your borrowers and be able to sort of hold your NIMs?

Rashesh Shah See, a large part of the retail book is usually on floating except the SME book, which is on EMI basis. The entire housing book is a floating book and I think, that what everybody does in the industry when the rates go up, the transmission is a lot faster; when the rates come down, the transmission is a lot slower. And that is, I think, across the board. I do not see rates going up for at least the next year. On the corporate book, it is transmitted fairly quickly. So a large part of that book is actually a floating book on a three months cycle and as I said, at 25 - 50 basis points nobody does aggressive transmission of that only when it goes beyond that will you start transmitting it. Also remember that NBFCs use a lot more equity than the banks do. So when the rates go up the return on the equity component of

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NBFCs also kicks into earnings. So even if the transmission is not 100% they do get the upside of their equity component unlike banks, who have a much smaller component of equity in their total asset base.

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

Renish Bhuva Sir, just a couple of questions. One is on ARC, so our first-half 2018 PAT stood at close to Rs. 95 crore and net revenue at Rs. 221 crore. So if we calculate the PAT margin it is somewhere around 43% which is significantly higher than our FY 2017 PAT margin. So can you please highlight, which are the key drivers for this sharp improvement in PAT margin? So is there any carry income which you might earned during the quarter which have boosted the overall revenue on ARC side?

Rashesh Shah I think on the ARC, you should see that we got a CDPQ equity infusion in I think, December or so. So part of the improvement as compared to a year ago is the higher equity because now we have about close to Rs. 900 crore of equity in that business out of which I think, already Rs. 400 crore or something has already come in from CDPQ, another Rs. 100 crore should come. So given that the equity component has gone up and the overall borrowing has come down, the gearing in that business has come down because of the capital equity infusion from CDPQ so part of the improvement is in that. So the way to look at that business is I think, if you take the first-half and just double it and we say close to Rs. 180 crore or Rs. 200 crore of profit on an average about Rs. 900 crore of equity, you are making a 20% - 22% ROE and on an average about Rs. 5,000 crore - Rs. 5,500 crore of assets you are making about 3.5% to 4% ROA. So I think, that is a better way to see the profitability of that business from an ROE-ROA point of view rather than the margins because margins may go up and down a little bit. But I think, the use of equity has currently improved the profit margin on that.

Renish Bhuva No, sir. The point here is we look at margins because there is no detailed P&L available for us to analyze. So if, there is any carry income on the assets which we may have resolved over the last six months we were not able to capture that in our P&L. So obviously, your PAT margin will go up but because since, we do not have those details with us we are not able to find out is there any carry income or not. So that is why, this is the only metrics we have with us to analyze.

Rashesh Shah Sure. Actually, there has not been a lot of carry yet coming in because no large resolution has happened. Small resolutions keep on happening. But again, I would say, my advice is, the best way to understand this is let us say we have Rs. 5,000 crore of assets or the average asset will vary around Rs. 5,000 crore - Rs. 5,500 crore and our top-line was about Rs. 220 crore for the quarter so let us say it is about Rs. 1,000 crore for the year. So if you have Rs. 5,500 crore of assets and about Rs. 1,000 crore of top-line that shows about 18% - 19% yield on asset and that then translates into ROE-ROA and that yield will capture. If the yield goes up significantly to about 20%, you can assume that the carry income has started kicking in. But without carry income the ARC assets, the cash we have invested should yield us between 16% - 17% to 18-19% yield on a quarter-to-quarter. It might vary a little bit on a one particular quarter. But if you go back and see the last 5 quarters - 6 quarters, that is the average yield on capital deployed that we have earned.

Renish Bhuva Okay, right, sir. So sir, just a follow-up question on that. So management fees typically for this business is somewhere around 1.25% to 1.5%. So now assuming the equity participation from ARC business will go up, is there any scope for this percentage to improve from these numbers? So let us say, management fees as a percentage of the AUM?

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Rashesh Shah See what happens is here you make your income from management fee as well as some underlying interest because a lot of these operating assets are also paying some interest because a lot of these NPA assets are still cash flow generating. The way you price the deal when you buy it in an auction is you try and aim for an 18% yield which comes partly out of fees and partly out of interest. So if you think the fees are going to be higher, then you will price it in such a way that your interest income might be lower because I think, banks also are comfortable if you can make say about 16% - 17% to 18% - 19% yield on your money and then with the potential of upside as and when you resolve it, if you resolve it at a price higher than the purchase price.

Renish Bhuva Correct. So in that case, the carry income is 20%, right?

Rashesh Shah Yes. That is on the upside after we have recovered the entire principal amount. Whatever is upside on an average and again, a lot of these deals are individually negotiated. But on an average, on whatever you make more than the acquisition price, you get 20% carry and then the remaining goes into the same ratio of 85-15 between you and the banks.

Renish Bhuva Yes, sir. So sir, second question on our ex-Insurance ROE. We have planned to reach this 22% ROE over next two years to three years. But we have done exceptionally well on achieving those numbers in first-half 2018 itself. So what is the strategy now? So is this fair to assume that this ROE will continue to remain at this level? Or is there any scope for further improvement, sir?

Rashesh Shah See, our whole idea has been that the Credit business should meet between 18% to 20% ROE. So Credit, we are at about 19% and the Advisory business is depending on at what stage we are in the scalability and investment cycle should add another 3 percentage points to 5 percentage points of ROE. And that is why this is now 22% - 24% range, is where we will end up being. Again, it will vary from quarter-to-quarter depending on where we are in the investment cycle if you decide to invest a little bit more. So my suggestion and that is how we do it internally is we have aimed between 20% and 25% ROE to be there out of which about at least 17% - 18% to 20% comes from Credit and the remaining 3% to 5% comes from non-Credit.

Rinish Bhuva Okay. So basically, there is further room for improvement if everything goes well for the next couple of years?

Rashesh Shah There is.

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

Avinash Singh The first one on your employee count. In this quarter it seems that you have added over 1,000 employees, still the cost-to-income ratio seems to be improving. So in which segments you have added these headcounts and how still cost-to-income has improved? That is the first one. And secondly, if you can help me with the breakup of Home Loan versus Loan Against Property in your Retail Mortgage portfolio? That will be great. Thank you.

Rashesh Shah See, if you see, our cost-to-income ratios were always higher because we were up fronting a lot of the investments because in a diversified model you are making multiple investments at the same time. This large increase in people has been because we continue to expand our Insurance business. So Insurance, we opened more branches and we have added there. We have also been scaling up our Retail Credit business, SME and the Home Mortgages business and there has been a lot

of hiring because we have added a lot of branches in that. If you see, like for example, our SME business until one year ago we had about 30 branches. Most of the other peers in that business in the SME Credit business have branches anywhere between 150 to 1,800 also. So we had very deliberately kept it small until we ironed out all the creases, we get our processes and especially, technology investments under way and now, we are scaling it up. So as we are scaling it up, we are opening branches and adding people and as a result of that, we feel our cost-to-income ratio is still higher. But it has been higher for the last three years to four years because of the investments we were making in Asset Management, Wealth Management, Retail Credit and all these businesses. Now, we are getting growth in a lot of these businesses. As you know, our Asset Management business broke even last year. I would like to give you an example on the Wealth Management business, we are making about 71 basis points of yield on assets. But I think, very crudely, our profit after tax on that will range between 10 to 12 to 13 basis points. We think, the long-term opportunity in Wealth Management if you compare with other peers and also at scale and when your investments get calibrated in a normalized way you should make between 20 basis points to 25 basis points of AUA as your profit. And as all of you would have seen the same thing is happening in Asset Management. Also in Asset Management, the profit after tax on AUM is now averaging between 20 basis points and 25 basis points for most of the players. So our cost-to-income ratios are still higher and they will continue to gravitate down. So while we make these investments we were always making these investments but at that time a lot of business did not have scale. What in Retail, we call the front book and the back book. The back book has become now fairly larger which allows the front book investments to happen without making our cost-to-income ratios go worse.

Avinash Singh What is the break-up of Home Loan and Loan Against Property in your Retail Mortgage portfolio?

Rashesh Shah I think, Himanshu will have the exact number. But I would just start up by saying we do not do only just Home Loan. The Home Loan segment that we focus on is in small ticket Home Loan, Affordable Housing and Under Construction mortgages. Himanshu can give you the break-up of that. Himanshu?

Himanshu Kaji It is around 40% - 60%, approximately.

Avinash Singh Okay. So you say 40% is Home Loan and 60% goes to us I mean, LAP or construction financing?

Himanshu Kaji Yes.

Rashesh Shah Construction financing is not in that. Construction financing goes in the Wholesale Mortgage book. So this is just Home Loan and LAP, but Home Loan consists of small ticket Home Loan for self-employed and Under Construction Home Loans for Affordable Housing.

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

Umang Shah I just have two questions. One was, on our Franchisee and Advisory business where we have been able to significantly improve our cost-to-income ratios. Just wanted to understand from two aspects – One was on Wealth Management where what kind of growth you believe is sustainable at this size? And second is, we have already achieved ~68% cost-to-income ratio on an overall F&A business. And in Wealth also, we are already at around 70%. So what kind of scope you do see for further improvement from these levels?

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Rashesh Shah

See, if you look at the peer set and all and we analyze them we think, steady state at scale you can be at about 55% to 60% cost-to-income ratio and there are rules of thumb - your compensation is usually about 25% to 35% in the range because if an average RM makes about say Rs. 3 crore a year, he takes about Rs. 80 lakhs to Rs. 1 crore as his compensation. So at scale, what happens is, even if your compensation cost is about 25% to 35% all your other costs, because there is an operating leverage, should not be more than about 20% out of that. So you can operate at 55% to 60% cost-to-income ratio in a steady state with normalized investments and scale being out there. So I think, because even today we are at about Rs. 76,000 crore and what we call scale is about Rs. 150,000 crore. So I think, this should double for us to get those real benefits on that. As far as growth is concerned we think, the market in India is growing at 25% to 30% per annum because a lot of the old assets which were either in real estate or bank deposits are also coming into other financial assets which needs intermediation and advice and that is where this opportunity is. To give you an idea, the total assets under advice for India as a whole is between Rs. 17 lakh crore to Rs. 18 lakh crore of all the wealth managers put together. Like we are at Rs. 76,000 crore, the firm who are leaders are about Rs. 120,000 crore Rs. 130,000 crore in the range and then you add up everybody. There are a lot of people at Rs. 8,000 crore - Rs. 10,000 crore - Rs. 15,000 crore Rs. 20,000 crore when you add up all of them, you will come to a number of somewhere between Rs. 16 lakh crore to Rs. 18 lakh crore which is only about 12% to 13% of our GDP. We think, on a long-term basis this industry should be about 25% of GDP by 2025. In countries like USA and other countries they are more than 100% but that will take some time for India. But as our capital markets are developing, as our financial sophistication is increasing, as the bond markets are developing, and same thing insurance assets, the mutual fund assets as I said today insurance and mutual fund assets are about Rs. 50 lakh crore as compared to Rs. 120 lakh crore of the banking assets. 20 years ago, they were 10% of banking assets. Now they are 35% of banking assets. I think, 10 years down the line, they should be 60% of banking assets. So as this is happening basically, Wealth Management opportunity is correlated to that. So I would feel that this industry should continue to grow at 25% - 30% a year and since, we are a slightly smaller and expanding our reach and investing for that our growth is higher. Also we are focusing a lot on the affluent segment as compared to the UHNI segment. Everybody is in both segments, but we are seeing the affluent segment which is closer to a Schwab or a Morgan Stanley, Smith Barney. If you see internationally the model is either a JPMorgan Private Bank or a UBS Private Bank which caters to ultra-high net worth individuals or a Schwab or Morgan Stanley, Smith Barney which caters to the mass affluent individuals. We see the mass affluent also a great market and we have a built a strong position in that which we think is growing faster than the overall market.

Umang Shah

Right, great. That was helpful. The second question that I have is on the Retail Credit piece. Clearly, we are focusing very actively on this segment and it is kind of helping us grow significantly faster. Just wanted to understand, in the foreseeable future do we intent to add any new product lines into this segment or we continue to remain focused on the four major retail credit lines that we are into currently?

Rashesh Shah

I think each of this four has a lot of headroom to grow and given our growth rate aspiration that we have I think, we can easily meet with that. We do from time to time experiment with lot of incubation and experimentation that goes on at a book size of Rs. 40 crore - Rs. 50 crore - Rs. 100 crore but nothing in the meaning way. So I would not expect any new Retail Credit business line or any overall even Credit business line to be added in the next few years.

Moderator

Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe Sir, my question pertains actually to the corporate business where you mentioned that your net interest margin and I guess, there is a little bit of subjectivity used in this. But your net interest margin in this business is somewhere close to 8.9%. So I am just thinking, how should we think about this playing out over the medium-term?

Rashesh Shah I think, if you look in the market the other corporate books of similar kind or the wholesale book of HDFC, or the Piramal, or KKR, or IndoStar, or Indiabulls or JM and all, this for the corporate book on structured credit whether it is developer or corporate I think, having a NIM of about 8% to 10% will be the norm. That is currently the average for the industry, for most of the players. So I think, 8.9% we are in the middle range of that. I do not see that going down below 8%, I do not see it going above 10% unless we use a lot of equity. But if you gear it the way it is geared about 5:1 to 5.5:1 then this is the NIM that will be steady state.

Nischint Chawathe I agree with the fact that this is something which is very much in line with peers. But do you see more competition coming in given the fact that this is appearing to be a very-very attractive business?

Rashesh Shah See, the market keeps on changing. I think, two years ago everybody thought this was a very high-risk business. But we also saw new people like Piramal and all entering this segment and also doing a good job out of that. So I think, the market is also growing. If you look at the structured credit book today in India is about Rs. 2,50,000 crore and I think, as the Corporate activity is coming back because what happens structured credit actually is switched between equity and normal debt. And it improves the efficiency of equity, but it also reduces the risk on the normal debt. And I think, that is the current change that India is going through. And one of the reasons we have seen real estate in housing not having a lot of NPA is that structuring that happened between equity, CASA equity, structured credit, construction finance, customer advances and then bank debt, all of that coming together makes actually a balance sheet a lot more efficient and the pricing can get right. And I think, the same thing will happen even in normal credit like project finance and all as and when the capital expenditure business starts. So I do think that competition will come in and it is already there but there is enough growth out there, so the entire corporate structured credit is currently Rs. 2.5 lakh crore. We expect this to be a ~Rs. 4 lakh crore market by 2020 and the real estate credit developer funding book our estimate of the market size is currently about Rs. 3 lakh crore, which we think will be closer to Rs. 5 lakh crore in the next three years because of change in the real estate law and the customer advances coming down and increasingly in a lot of real estate projects, we are seeing that developers are now using this saying this is an Edelweiss-funded project or this is an HDFC-funded project or this is a Piramal-funded project as a way of showing the financial strength of the project. So I think, these things will matter so we think there is growth but there will always be competition. It has always been there. It is not that this market has not been competitive. But I think ultimately, it is also very skill driven, relationship driven the understanding of the customer and the need and structuring around that and that is why I do not think there should be a challenge to maintain the growth rate that we are envisaging in this.

Moderator Thank you. The next question is from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhranshu Mishra Just if I look at your Life Insurance numbers and the investment income has come down primarily because of the interest rate environment. How do we look at your insurance business strategy going forward, especially the premium income, sir?

Rashesh Shah So as you know in insurance we started off with a very strong agency focus and a large part of our business initially has been focused on agency and traditional

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products. Because after the change in the ULIP guidelines and the margins and all that currently, the profitability on ULIP is lower and Banca is the best channel for that. We have only so much access to Banca, we have currently one Banca relationship. We are now seeing that Banca is opening up as more and more banks are adding more insurance companies. So I think, the long-term strategy will be Banca for ULIP, the agency for traditional products. We are also using Edelweiss as a channel very effectively. And now Edelweiss, as a channel, currently contributes about 14% - 15% of the Insurance of the new business premium and that is part of cross-sell that we do using analytics. So I think, if we continue to maintain this, we should be okay, large part of our extra focus is also not on distribution, but on product and investment management. So you will see that all the ULIP funds we have are four star and five star rated. They are in the top decile of the industrial set and we are now getting the benefit of that because we see insurance not just as an asset gathering distribution business but also as an investment management business where getting that 100 basis point extra return can change the economics of your product very much. It can change the returns for the customer but the profit margins for you also, especially on traditional products.

Shubhranshu Mishra Right. And just a follow-up on this, sir what would be the split between Banca and agency business right now? And how do you envisage it in the future say two years from today?

Rashesh Shah So if you look at Slide #37 that gives you the break-up.

Shubhranshu Mishra Right, sir. So in that case, what would be the future two years from now, sir?

Rashesh Shah We are hoping that agency which is currently 67% ends up becoming 50% and Banca which is currently 16% ends up becoming 25% or 30% and everything else is the other 20% including Edelweiss which is currently 11% I think, it can remain between 10% to 15% and the others can be the remaining ones.

Shubhranshu Mishra Right. And any new Banca opening up as in any new thing in the pipeline, sir?

Rashesh Shah I cannot speak about anything on that. But obviously, we are one of the few ones which started after 2008 which has got a significant Banca relationship and 16% of our current business also comes from Banca. So we have experience, we have also seen our Banca works and we have invested a lot in our knowledge of that. So I think, we can replicate it across banks. And we are seeing that banks are opening up. I think over the next two years three years we will see banks having multiple insurance partners for sure.

Shubhranshu Mishra Right, sir. And just one follow-up on your Wealth Management where you refer to mass affluent as customers, how were chunk of your Assets Under Advice is from the HNI customers. So how do we look at it going forward, sir?

Rashesh Shah So it is an important question because I think we all look at AUM but you should also look at yield. Yield is much lower on ultra-HNI customers, yields are much higher on the affluent customers because affluent customers have lower assets but higher flow. They churn that more often, they borrow against that. They are slightly more active because most of the affluent are still in the wealth creation process while a lot of the ultra HNI are in the protection category. So as you go down and slice it more and more higher the AUM, the lower the yield on those AUMs still very profitable so if somebody gives you Rs. 100 crore of assets and even if you make 25 basis point yield on that it is still not bad. But 25 basis points on Rs. 100 crore is different from 200 basis points on Rs 1 crore.

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Moderator Thank you. We will move to our question, which is from the line of Shekhar Singh from Excelsyor Capital. Please go ahead.

Shekhar Singh Sir, just want to know like whether Edelweiss is playing any role in the insolvency proceedings against the major defaulters either in the fee form or in the capital form?

Rashesh Shah So in a few of them we are obviously there as an ARC. Like Essar Steel, after SBI we are the second largest holder of the debt. So we have quite a few I think I do not know the exact number but I would guess about 10 cases to 12 cases in NCLT we are there as an ARC creditor in those. In some of them, our investment banking team and the restructuring team is also working independently because every NCLT case has an investment banker also. In some of them, there is a lot of buy-side interest in that and in some, we maybe advising potential acquirers on the assets they want to acquire which are in NCLT because there is going to be a lot of M&A activity around NCLT process also.

Shekhar Singh Yes. So in terms of any fee potential or will you be using your capital also for any of these say in terms of bidding or in the auctioning or something?

Rashesh Shah Whatever capital is being used comes from the ARC side. We are also doing some interim financing which also is part ARC being distressed credit business only because there is a lot of interim financing, super-senior loans, etc is required, so we are doing some of that also but that all falls part of the distressed credit business. On the investment banking, we will be doing restructuring and M&A but that will only be fee-based and that will be specific to opportunity and all. But I do think, not just as lot of other people are also doing a fair amount of work on investment banking and advisory side on this entire insolvency because there is going to be a lot of M&A and structuring and restructuring on that.

Moderator Thank you. The next question is from the line of G. Vivek from GS Investments. Please go ahead.

G. Vivek Sir, just a few queries. Is the free run for the NBFCs which was happening so far over with the recapitalization of public sector bank? And what about the increasing competition intensity in the ARC space again where we were the leaders?

Rashesh Shah So, I think, the first one is an important question. Obviously, there is a lot of speculation going on. But if you see the way I think, this entire recapitalization is going to be over the next two years. Very broad back of the envelope calculations if you do I think, at least out of the Rs. 2.1 lakh crore that is there at least about Rs. 1.3 lakh crore to Rs. 1.5 lakh crore will have to go towards provisioning. Because as you have seen a lot of banks have started making losses also and the regulatory capital has fallen below the threshold, as well as they have gone under PCA. What was happening in the last three years to four years banks were earning money and whatever they were earning on a pre-provisioning basis, they were actually using it for provisioning. But now, the last phase of the provisioning has started and our estimate is that in the next 18 months, banks may have to provide up to about Rs. 3 lakh crore, out of which only about Rs. 1.5 crore to Rs. 1.8 lakh crore may come from the pre-provisioning, pre-tax earnings of the banks. So anyway, there was a gap of at least Rs. 100,000 odd crore. So earlier it was like slowly, every quarter you earn money, every quarter you provide; every quarter you earn money, every quarter you provide. I think, that was not going to work for the next 18 months because now the provisioning requirement was getting accelerated because of RBI's push as well as that is how the provisioning cycle works. It is slow for the first three years and then it accelerates very rapidly. Because historically, RBI has followed an approach that you get some forbearance implicitly for three

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years to clean-up the NPA and restructure it. But at the end of three years if you are not able to find an answer to that then you over provide and then recover, and I think, we were getting that stage. So there was a big provisioning wave that was coming. As a result of which I think, out of this, about Rs. 1.3 lakh crore - Rs. 1.4 lakh crore will go towards provisioning and another Rs. 50,000 core to Rs. 80,000 crore will be available for growth. If the opportunity for NBFCs is over then the opportunity for private sector banks will also be over. And remember, this has been going on for 25 years. The private sector banks started in 1994 and since then, there has been a steady loss of market share. So if you go to 1994, Government banks were almost 100% of the outstanding credit. By 2007 - 2008 they had become about say approximately 80%. Now they are close to about 62% - 63% of outstanding credit and I think that the transfer of market share from government players to private players has happened in every industry in India. So I think, this should continue. And that is good and healthy for the market because it reduces the burden on the Government to constantly provide growth capital for banks if they have to maintain their market share. And on ARC, I would say competition will come but it takes you three years - four years to build a business. If you look at every business that you need to build, you cannot start that immediately. So like, we have also started our ARC business in 2008 - 2009 and only by 2013 we had the platform in place because you need to hire people, put in systems, put in relationships out there, the backend technology, all of that takes time. So I think, the new entrants in ARCs yes, there will be some specific deals here and there but to build a platform, I would be surprised if anybody can build it under three years to four years nor can we. Even when we enter a new business, it will take us three years to four years to at least build a platform on that and I mean, as a crude analogy, I say that if a kid is to be born it will take you nine months. It cannot happen faster and that is what happens in any new business. So like there are a lot of Credit businesses we are not in. But if you want to get into any of those credit verticals, we will have to spend three to four five years in getting the platform and foundation in place. So competition will come, market will grow and competition will also take its own time to come of age in that.

G. Vivek

And the borrowers are the worried lot now that their tones of sort of take it or leave it has changed for sure or environment is very much favorable for ARCs like us?

Rashesh Shah

Absolutely, I think not just for us, even for banks because earlier when account became NPA the banks were resolving it, but the asset stayed with the promoter. And the promoters always had an upper hand because the banks were thought to be helpless in those conditions. Now with the NCLT process what happens is if you know how the law has been drafted, we have followed what is called creditor in possession mode. So what happens, the day it becomes an NPA, the banks are now owners of that, the board of the company has been dissolved and the creditors committee of the banks actually becomes the effective board of the company. So any company that is an NCLT today is actually transfer of ownership or control has already happened from the promoters of the banks. Now the promoters have to bid with other bidders to get it back and that itself is a game changer. Because now, they are not owners of that company anymore, the ownership has already been transferred and now they have to give a great proposal to take it back for which they have to compete with other people.

Moderator

Thank you. The next question is from the line of Ami Parekh from FEGML. Please go ahead.

Ami Parekh

Sir, I had a few questions. First, is relating to Slide #14, if I look at end of period equity this quarter stood at around Rs. 1,946 crore. Now, if I go back six months, the corporate end of equity was Rs. 2,110 crore. So why there is a reduction on a six months' basis when there is a positive PAT?

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S. Ranganathan It is because of the minority buyout that we have just spoken about sometime back.

Ami Parekh Okay. So how much that was? It is the difference between the Rs. 2,100 crore and Rs. 1,946 crore, is that the difference?

Himanshu Kaji It is one of the contributors of that. The rest is the allocation of capital.

Ami Parekh And one more question, the GNPA of 1.7% in absolute terms is how much?

S. Ranganathan It is on Slide #26.

Ami Parekh Okay. So out of this, how much is in retail? How much is in Corporate and Distressed or the GNPA?

Rashesh Shah We are currently not breaking it up. But I can tell you off the cuff that I think, they are more or less equal in both because even in retail we provide aggressively, and we have always been reconginising on a 90 dpd basis. The only thing I can say is, there is not a significant difference between retail and the corporate ones.

Ami Parekh Okay. So it is divided between Retail and Corporate nothing is there in the Distressed, right?

Rashesh Shah No. Distressed, there are no NPAs because at a price you buy it, it is already marked-down and you anyway keep on getting your income. So this is excluding distressed asset.

Ami Parekh Okay. And sir, one more suggestion from my side, if you can give the break-up of this Retail, Corporate and Distressed every quarter it will be really very helpful. And on a bit on the expanded side, like other NBFCs they disclose then it will be very helpful.

Rashesh Shah Sure. That is a good suggestion and not just for you but for everybody else. If you have any suggestion on how we can improve on the Presentation, give more color to improve your understanding, we are very-very open to that. So please, even offline, feel free to give any ideas and suggestions to us because you see a lot of other NBFCs and other companies, so you may have an idea of how to improve the quality of our communication.

Ami Parekh And one last question. I think the question is repeated, but I got disconnected. So what kind of growth are we expecting on the Asset Management and on the Wealth Management side? Do we expect a 70% growth in AUA on a yearly basis on the Wealth Management side and 50% growth on the Asset Management side? Do we expect this run rate?

Rashesh Shah See, it is hard to make a forward-looking statements to be honest with you, it is just too inappropriate. But I would say, both the Asset Management and Wealth Management segments, the industry is growing between 25% to 30% a year because of the entire financialization, disintermediation of banking and all that. We are in special focus, like in Asset Management, we are strong in alternatives. We are seeing a big jump in alternatives. On Wealth Management, we are strong in the affluent segment, where we are seeing a much faster growth. So I think even within Wealth Management, Asset Management, we have picked-up some of the segments where we think the current sizes are small of the industry segment but can grow a lot faster.

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Moderator Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Shiv Muttoo Thank you very much for joining this call. And should you have any queries as mentioned earlier, you can always approach Salil about that. Thank you and have a great day.

Rashesh Shah Okay. Thank You, Everybody. Bye-Bye. Thank you.

Moderator Thank you. On behalf of Edelweiss Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.