"Edelweiss Financial Services Limited Q2 FY20 Earnings Conference Call"

November 13, 2019

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Edelweiss Financial Services Limited Q2 FY20 Earnings Conference Call. 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 the Edelweiss Financial management team. Thank you and over to you.

Ramya Rajagopalan: Good evening, everyone. Thank you for joining our Q2 FY20 Results Conference Call. We have with us, Mr. Rashesh Shah - Chairman and CEO of the Edelweiss Group, Mr. Himanshu Kaji - Executive Director and Group COO, and Mr. S. Ranganathan - President and Chief Financial Officer.

During the discussions, we will be referring to the Q2 FY20 investor presentation uploaded to the exchange and on our website. I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. Please read the detailed disclaimers in our results documentation.

With that, I would now like to invite Mr. Rashesh Shah to begin the proceedings of the call.

Rashesh Shah: Thank you, Ramya, and hello, and good afternoon or good evening to all of you. Thanks a lot for being on this call. As usual, this is a very important opportunity for all of us to interact. And I have, over the years, enjoyed your questions, enjoyed your feedback. And I do hope that we have a very fruitful conversation in the next hour or so.

We announced the results yesterday as you can see, and I don't think it bears the need to say that it's been an eventful quarter. I think the last 4 quarters in India have been eventful, and we do hope that we stop having eventful quarters going forward. But this is a quarter, especially when you compare Q2 '20 to Q2 '19, because Q2 '19 was still the growth quarter because only on the last few days of Q2 '19 is where the liquidity crunch and this entire upheaval started. So we are also comparing Q2 '20 to Q2 '19. But in this quarter, I think 4-- 5 things happened. We have been degrowing the balance sheet. We have been shrinking a little bit. We also have, the cost of funding is still, that transmission is not happening. So cost of funding still remains a bit elevated. But the good news is there is enough funding available. But for us also, at this cost of funding, we don't want to grow very aggressively.

Third has been, we continue to provide a lot more conservatively on credit cost because we do think that given the liquidity crunch that has been there, we should be more conservative in making sure we have more than enough provided. And the feedback we have got from long-term investors has been that it is always better to be conservative at this time and get some flow backs in the future rather than try and optimize on credit cost at this time because the book is what it is. What we are finding is, as we've been saying again and again, the collateral

cover is still healthy, but the cash flows of a lot of our customers on the wholesale side have become erratic especially on real estate and that is why we have launched the completion financing fund, which I'll speak about in a little bit.

So very eventful quarter. The good news on this quarter has been we continue to strengthen the balance sheet. Our customer assets continue to grow. So on that side, it's a little bit of de-growth on the balance sheet side, but some growth on the customer asset side. As a result of all this, obviously, P&L has taken a hit and we have been saying it for last almost a few quarters that the P&L will remain challenging. We do believe until March 2020, our growth in P&L earnings is not on the horizon because as you clean up, as you strengthen, as you don't grow very aggressively, and we have not cut costs. We have not laid of people because we do think that in the long term, this is a temporary blip in the cycle. And especially in key areas like technology, retail, credit, wealth management, asset management, we have made sure that not only are we not cutting back, we continue to invest because we don't want to lose the momentum on that.

So as a result of that, you would have seen cost income ratios are also elevated. So this quarter, I think all those have been the factors which have resulted in a lower P&L. But on the other side, the balance sheet in this quarter has got stronger. And as we recently in the last quarter, we announced the capital raise from Kora, and we have said this was about $150 million target amount, 75 would raise from Kora. We have announced the remaining 75 with Sanaka Capital. And the good thing in this quarter has been, there has been a lot of investor interest in investing in this opportunity. Along with that, we also raised liquidity. Liquidity position remains strong. We have also announced the last mile real estate completion financing partnership along with Meritz, which we think, a) is very timely because that is a great opportunity because a lot of real estate projects are economically viable but have been suffering from last mile financing. And we have been saying that but we also have been one of the early ones to be able to raise capital on that and bring it to fruition. Along with that, this also gives us a liquidity window because some of our current loans could also get transferred to the AIF that we have set up. So it also releases liquidity as and when required for us.

So I think on the balance sheet front, very happy. Things have got stronger, though it has been hit on the P&L side. We also reduced our margin funding and the loan against shares book because as the environment has been more volatile, our customers also, it is in their interests not to be very geared up at this point of time. And that is why you would have seen a little bit of degrowth on that side also.

Our focus on liquidity remains. We continue to remain in 365-day horizon planning window for liquidity. Before the crisis started, we used to be 180-days horizon planning, and we have changed our gears for the last 4 quarters, so to go from 180 days to 365 days. Our feeling is, until March, we'll remain in 365-day liquidity planning focus. The impact of that is that our, I think, liquidity holding costs will continue to remain elevated. Our focus on this will ensure that we have enough liquidity but will come with an earnings drag. So that I think, until March 2020, our current outlook is that we should remain in that mode.

At this quarter, there's been an average one for ARC. As we have always said, ARC is a good 3% to 4% normal ROA business. And when you have upside and carry income and resolution, we were expecting Essar Steel to happen in this quarter. In Q2, that has not happened. But we do think ARC is a good steady business, which I think is icing on the cake as and when the upside happens.

In this quarter, the alternative asset management business has become even stronger. We have had one of the busiest quarters on that count because what is happening in India is, as we are moving from only a growth hypothesis opportunity, we are also becoming very attractive yield and return hypothesis. And that is where a lot of these credit strategies are kicking in, including the last mile funding platform that we announced with our partners from South Korea. So I think alternative asset management is the beneficiary of this dislocation in the market. And we do think that a lot of the wholesale credit, especially the wholesale credit that requires long term, patient and flexible capital is moving to an alternative asset management or fund management structure, and we have been pioneers in that. We are the leaders in that, and we have had a lot of interest from global funds who want to capitalize on this 14%, 15% because, again, even things like real estate, project financing is not a bad investment. It may have looked like a bad credit strategy in the last one year, but it is, on a risk-return point of view, a fabulous opportunity. But it requires patience, flexible and long-term capital, which the fund structure will provide.

We continue to remain excited with retail credit. This quarter, we have done a lot of co-origination partnerships. So we do think NBFCs will be a lot more scalable on specific SME retail opportunities as long as they partner with banks. And the earlier partnership with bank was borrowing from banks. We think that will continue, but the borrowing from banks has got expanded to securitization with bank, which has also been there, but the new thing has been the co-origination. So I think for any NBFC, your banking partnerships will now be a combination of these 3 things. You will be a borrower from the banks, as you have been; you will repackage and sell portfolios to banks as you've been doing, but you'll do a lot more of that; but you will also be a co-originator with the banks and will service those loans for them and earn a fee on them.And that, from a return-on-equity point of view, is a very attractive opportunity.

We continue to invest in the Wealth Management platform. Capital markets continue to be a strong opportunity. Our assets in clearing custody continue to grow and all these are more annuitized form of capital market opportunities that we've been investing in. We also announced our partnership with Gallagher from USA on insurance broking, which is one of the offerings on our advisory platform, in our advisory business because we want to be offering all products to our customers be it they are buying insurance, they're buying asset allocation solutions, all of that and obviously, ECM and DCM and those capabilities.

On the wholesale credit, our strategy continues to be the same. We are de-growing the book in 2 ways. One is organic de-growth and the other is, like what we did with, along with Mertiz, and we will do a few more of those, is getting long-term flexible capital from foreign partners who can capitalize on this opportunity but not burden the NBFC with that and this, we have

spoken to a lot of our stakeholders, including equity investors and with our credit providers like banks and the bondholders and everybody is very excited with that because as long as the burden of this starts shifting from NBFC to the fund management platform, it is a great one.

I think real estate, we have given some color on that. The real estate market is starting to improve. In fact, the crisis has been a good thing because new supply has come down. New projects are not getting launched. And actually, housing is starting to pick up. We're still not seeing price improvement, which is anyway not on the cards for the next 1 year, but we do think the volume offtake for projects which are moving along, which have a very high degree of completion, those projects are seeing sales offtake of a fairly decent manner, especially projects which are under 1 - 1.5 crores. And in that context, the last mile fund announced by the government is a great help. Our estimate is the total last mile funding required for good viable projects, which are about 5,000-odd projects, is approximately about 40,000 to 50,000 crores and the government-sponsored AIF is about 25,000. Funds like ours and a few others will provide the balance. I think we ourselves hope to be about 4,000 to 5,000 crores of last mile funding on the fund management structure, which, also, a great opportunity for alternative asset management. So our alternative asset management after this fund closure and all, we would have crossed $4 billion of AUM, which makes us and continues to keep us as the largest alternative asset manager in the country, home grown.

And along with that, technology investments continue. In fact, we do expect that our spending on technology has been high in this quarter. And that is one of the calls we made, that even if it is impacting earnings, we continue to invest in technology and there's lot of this co-originations are the outcome of that. And I think part of our cost income ratios will remain elevated for next 2 quarters because we will not grow as aggressively, but we will continue to invest in retail, credit, technology and wealth management platforms to continue to build them, while we will see some, not absence of growth on corporate credit or de-growth on corporate credit, which will bring the asset base down. And that is a stated policy. I think between now to March 2020, this will continue though I think environment is improving.

So lastly, a couple of words on the environment. We do think August onwards, the environment has improved largely because of the equity infusion that government did in the banks, largely because of the interest rate cut cycle that RBI has been on for the last 5--6 months. Partly because of the liquidity surplus that the system is now between 2 lakhs to 2.5 lakh crores of liquidity surplus, which eventually will trickle down and a little bit of the cost of funding coming down is a result of that. I think liquidity has eased off. We are still a long way away from the normalcy, but it is starting to improve, August onwards. September and October have been good months, and we are seeing traction on that.

We are also seeing the foreign investors coming back. I think there is maybe a risk-on mentality is coming back, which is good for India because we need the foreigners to start investing again in equity markets, which is also coming back. So I think we're seeing early green shoots on the horizon. This quarter is an important one, October, November, December. But I think India may have seen the worst in terms of GDP growth of 5% in Q1 and we'll wait

for the Q2 numbers. But most economists think it will also not be a very exciting number. But we do think Q3, Q4 onwards, GDP growth should also start inching back. The extreme slowdown we have seen will start to reverse and maybe ‘21 should be a normalcy year and ‘22 onwards will be a growth year for India. But I think from now to getting to normalcy itself will be a big achievement because India has had one of the severest slowdown, one of the biggest dislocations in the financial markets we have seen in the last 4 quarters.

So along with that, again, thank you all of you for being on this call, and I do look forward to your questions, your feedback, your observations. And I think this interaction is very important to us. Thank you.

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: Hi Sir, Congratulations on good set of numbers especially given the current environment sir, a couple of questions. One is on our AIF structure. So we are raising money on that platform continuously and successfully. But in terms of deployment this quarter, so hardly 3 million deployment. So last quarter, we were around 9,700 crores. This quarter, we are at 10,000 crores. So can you share some insights on how do we drive P&L out of it, let’s say, from ‘21 onwards, given we are continuously raising money on this and the kind of deployment pipeline you might have?

Rashesh Shah: So yes, actually an excellent question. See usually, on this kind of AIF kind of credit strategies, it takes about 3 to 4 months to close a deal. And I must be honest, I think until April, May, therewas not focus on doing more because, as you know, the environment was very uncertain and all. Until August, I think things were uncertain about whether the slowdown is severe, how long will it last, will the credit culture get worse. All of those questions were there. August onwards, we are seeing a very good pipeline that is in process. And we do think our target has been to deploy about 1 billion to 1.5 billion every year, about between 7,000 to 10,000 crores every year. And if you see the current undeployed amount is about 10,000 crores because this, what we have raised as the last mile completion financing, the $425 million, that we don’t need to find new deals to deploy that we can always also transfer part of our portfolio and use the money for last mile funding. And there is a huge pipeline out there in our portfolio and other portfolios that we have seen. So I don’t see a lot of deployment challenges on this 425. On the balance 10,000 crores, our target would be to deploy it over 4 quarters. I must say, we have started the deployment focus from July, August onward because until then, things look like, we don’t know how long the slowdown will be. But I think August onwards, the mood is starting to change and we are seeing quite a few opportunities, including distress with banks wanting to do 85, 15 deals with ARC also. So we have actually a fairly good pipeline. And I do hope that Jan onwards, we start showing deployment. Though in the last 4 months also, we have closed about 4 deals across all these funds that we manage. So we have done deals you would have seen. We had also bid for IL&FS roads and infra AIF, and we have actually been awarded 3 roads out of that. There was in the news that NG Solar, we have been one of the bidders on

that. We closed the Essel transmission project. We closed the BMM Ispat deal all these have been reported in the press. So I'm sharing that with you. So our average is to do about 1 billion to 1.5 billion and about 25 to 35 deals in a year, which is about 2, 3 deals a month. We have done about 5, 6 deals in the last 3, 4 months. So the pace has slowed down, but we do expect to pick up the pace from Jan onwards.

Renish Bhuva: And if you sir can just share the profitability metrics, how it works on, let's say, assuming $1 billion deployment on yearly basis?

Rashesh Shah: So what happens is when you deploy, you start earning fees. So on an average, let us say, the 10,000 crores undeployed amount, if you were to hypothetically deploy the whole thing, you would earn about 150 crores of fees. The good news on this is that because we have 20,000 crores corpus, 10 is deployed, 10 is not deployed, the cost has already been incurred. So in a way, you will earn fees on deployed because unlike private equity where you get fees on AUM on private credit which are the strategy, you get paid on deployment. So once you deploy the money, you start earning fees. So on 10,000 crores, the potential fee is 150 crores. Then the second thing comes in is when you exit the old investments, you start getting carry on that. And usually, carry is also another 1.5%. The economics of private credit funds are 1.5% on deployment and another 1.5% on carry if you are made of 14%, 15% kind of a return, which is what all these credit strategists do. So you end up making about 3%, half and half. Half is fees and half is carry.

Renish Bhuva: So what will be the average tenure of these funds? Because I'm assuming carry income would be a little back ended, so...

Rashesh Shah: Yes, it is always back ended. And usually, the average investment horizon in credit is about 3 to 4 years. While in private equity, it is about usually 5 to 7 years. So this is slightly shorter than private equity. And even the infrastructure yield fund that we have that has a 7-year investment horizon. So usually, you're in to out will be between 3 to 5 years on an average.

Renish Bhuva: And sir, this we talked on the revenue side. But I mean, in terms of the final profitability, what sort of basis points we make on, let's say, Rs. 100 of AIF, including everything, cost, carry income, everything?

Rashesh Shah: So the way it works is, on Rs. 100, you expect to make Rs. 3 of effectively fee. Half is normal management fee and half is carry. Your cost on the first 1.5, your cost income ratio is about 65%. So out of 1.5, about 1% goes away as expenses, and 0.5 remains as your PBT. But again, as I said, this is on an entire amount. So if you have invested half the amount, your cost income ratio will be slightly higher. On carry, it is about 40% goes to the team and 60% comes to us.

Renish Bhuva: Okay. So 60% to the originators?

Rashesh Shah: To Edelweiss. So on the whole, if you have a 3% overall income, your cost income ratio should be 1.5%, and PBT should be another 1.5. And if you take a tax of 25%, all of us are

getting used to 25% tax from 35% tax now. So if you take 25% as tax, you should make about 1.1% or 1.2% as your PAT to AUM ratio over the cycle. But as I said, this is slightly back-ended. We have started investing a lot of this money around '15, '16 onwards. So around '20, '21, onward, this should start getting in the carry also.

Renish Bhuva: Got it sir. This is very very helpful Sir last question. Ideally, please try to address including your strategy also. So last year, we had 1,000 crores PAT consol level. Of course, FY '20 would be a kind of a consolidation year you know,We are doing a lot of new things. But if we have to assume that the business will normalize in FY '21 onwards, so what sort of PAT you assume on each of your vertical, which is like credit advisory and insurance?

Rashesh Shah: I think what we saw last year, FY '19, it should be like a base case because as you correctly said, FY '20, there have been 4, 5 deltas on that. I think the delta of credit cost. I think credit costs, both the non-recognition of income as well as the provisioning and write-offs have been an extra 500 crores over normal in this year. And all other, the cost of liquidity, cost of borrowing, plus the lower level of activity is another 300-odd crores for this year. So we would say about 800 crores is what would call, at a pretax level, an exceptional fall, which can translate into 500 - 600 crores of real fall. So I think the idea would be that once this normalcy happens, you should get back to that. And then our target has been about 20% growth. We see that possible in retail credit. I think our target in retail credit is actually 30% growth because we have are really very small. So I think on that base, that growth is possible. Asset and wealth should grow at least 20% to 22%. In asset, as I explained earlier, a lot of our income and profit have not yet come in because we have not deployed 10,000 crores and we have not started getting the carry income, which we expect also coming in from 2021 onwards. So I think some profitability from that coming in. So I would say '21 should be a normal profitability year. And '22 onwards should be growth. I don't think all of us think all NBFCs as well as financial services companies will go to a 30%, 35% growth in a hurry. But I think getting back to 20%, 22% growth should be possible after '21.

Renish Bhuva: Got it. Sir, '21, broadly would be a year where we'll see the '19 PAT from there onwards. So we'll try to achieve 20% plus kind of earning growth rate on a sustainable basis?

Rashesh Shah: I would hope so. Ya

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

Avinash Singh: Two questions. First, if you can just help us understand sort of structure. So now a lot of capital has come over the last 1 yearsort of in a turbulent time. I mean, the CDPQ, and then Kora and then this latest Sanaka Capital has come. And all these investments are in form of CCPS. So I mean, what sort of a timeline for the inflows of this investment and by what time it will mature and what will be the typical dilution post all these CCPS gets converted to equity sales. So I mean that will help us sort of model the estimates for the Edelweiss consol numbers. So that's question number one. And second, if you can just throw some color on the

progress in terms of co-origination because you have signed agreement with 3, 4 public sector banks. So I mean, in terms of the technology integration and how has been the progress so far and which will be the business segment lines, where you will see that, okay, this is going to make a big difference. So these are my two questions. Thank you.

Rashesh Shah: Yes, Avinash. Thanks a lot. I think on the first one, we are effectively, as you know, the strategy has been to independently capitalize the business verticals we have. So out of the 1,800 crores of capital from CDPQ raised for the credit vertical, 1,040 has already come in and we will get 2 more tranches of 350 crores each over 2 years. So 350 in calendar 2020 and 350 in calendar 2021. These are all the CCPS carrying a coupon of about 9%, but also there's convertibles, which is linked to profit. So we think if the profits grow higher than 9%, it's actually more favorable from the valuation point of view. The conversion target that they have is 5 years from investment though they invested in 2019. So 2024 is the conversion date. Or if you want to do an IPO or the listing, then it can get preponed. So anytime between say, 2022 to 2024, should be the conversion on the credit vertical, which is good for us because this structure also gives us time because it will be based on the valuation and the earnings of the year of conversion, 2-year average of the year of conversion which is good for us because that allows us to take some de-growth in earnings now, recalibrate our strategy without having to worry about that. And that is how they also wanted. They wanted us to take 2, 3 years, even if there is a dip in earnings, as long as the earnings are recovered in thecredit business by 2022 and 2023. It won't affect our decision-making in that sense. So that is with them.

With Kora and with Sanaka, we have raised about $150 million approximately. Here also, the conversion date is March 2021 to March 2022 anywhere in between of that. And again, it is linked to profitability of that year, which is good for us because we don't want to link it to current year profitability because we know a) environment is bad; but b) it also gives us room to take some short-term cleanup cost and just strengthen the balance sheet. And that is what our approach has been. Until last year, the road was very smooth, easy, open, and we are all driving very happily. The road has got really bumpy and very uncertain. A lot of speed breakers on the road. So what we have done is slow down the car, make sure we get enough gas into the car, make sure we make the car transmission a little stronger. And we know that we have strong drivers. But a good driver on a road like this should only work when there is a strong car, enough fuel and you are driving carefully. All 3 are required, and that is what we've been doing. This structure in both the deals for our advisory business equity raise and for the credit business equity raise allows us to take not a short-term horizon, but a long-term horizon on our earnings outlook. I must also clarify both of these are compulsorily convertible equity instruments. So this is equity, at the price that which it gets converted can change. We think whatever ranges we are talking about; this should be in the range that we have indicated in the presentation. That in the credit business, CDPQ should have anywhere between 14% to say, 22% kind of equity in the company. And for both Kora and Sanaka, the valuation should be around 8,000 on an average. 8,000 crores pre money valuation for the advisory business. So this is what we are aiming for, and we hope to get there.

On the co-origination front, actually, I must also say more than these rounds of equity, in fact, at 2,800 crores its a very robust equity raise and having done it from multiple investors has given us a lot of confidence and confidence for stakeholders that we do have good, high-quality investors coming into our capital structure. But we also raised the money like this partnership with this South Korean company. Even this gives us a lot of good quality, long-term capital. So one of the things we have done, whether we got money from CDPQ 3 years away to what we have got from Tokio Marine in the insurance business, to what all these deals we have done now, we have shown that we can attract, bring in long term, very patient capital for good, high-quality opportunities in India. And be the India partners on capitalizing on that. And I think this is one big strength that we have demonstrated, and we'll continue to build upon that. Because there's a huge amount of global capital wanting to come into India, and we want to be one of the partners in the areas where we have capabilities to be able to channelize and attract this capital.

On co-origination, a lot of the trial runs have been going on. We expect to disburse the first loans in the next 2 weeks from all these banks. With all these 4 banks, a lot of trial runs are going on because, ultimately, I think 80% of what has to be done has been ironed out the last 20, from a technology point of view, from an acceptance point of view, irons are being wrinkled out. I do think between now to March, we will log in a few cases. But from a volume point of view, it won't be a great one, but it could be a great takeoff point after that for 2021 because the numbers that we are talking and what the banks are talking are very different. The banks have very high expectations. We, our idea is that on co-origination, if we can do about 10,000 crores in the next 18 months, that will be only 2,000 crores on our balance sheet on the retail side, which is also not a lot of money on this. But 10,000 crores, a lot of banks are seeing, each of the bank wants to do between 5,000 to 6,000 crores a year on this particular platform. So I think the bank's expectations are very high. We want to build them a platform that is very scalable. In order to building a platform, a lot of trial runs are going on. We've invested a lot in technology and manpower on this even in this quarter. So just to give you an idea, aside of all this, in the month of September, our headcount remained almost flat, but we hired 400 people. So we continue to hire to meet attrition and hire in the areas where we want. So we hired about 400 people in the month of September. A lot of them are on technology and on retail credit, but largely targeted towards this co-origination. We're also hiring people in insurance and other verticals where growth continues.

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

Jignesh Shial: Hi sir and thanks for the opportunity Just quickly, as you highlighted earlier that this last mile funding one, you can even buy out the portfolio from your own existing books. Is my understanding correct that, that will further shrink down your NBFC portfolio? Or you'll be putting additional money into your existing projects that you are funding? If you can clarify.

Rashesh Shah: So there's a last mile funding, this $425 million, 300 is from the Korean partner, 125 is ours. So that will continue. Out of the 300, which is theirs, we can sell part of the book there. If you

want to release liquidity, there is already a project they've evaluated and approved that they want those. We also expect to allocate about 100 million out of the 300 for last mile funding of all these projects that we need. So in a way, it will take away a burden of this, but what you are saying is very correct. We want to shrink the wholesale book. But we will divert that capital to the retail book growth. So maybe for the next 4 quarters, our overall book may not grow, but the composition will continue to change from wholesale to retail. So if you remember, our original plan was organically scale down wholesale and to build retail. Now we are doing both organically and structure deduction of wholesale because that is what gives comfort to a lot of our stakeholders. Plus, it gives a lot of stable, patient capital for these projects because a lot of these projects are very good, very economically viable. But a) they need last mile funding; but b) they may also need slightly more long-term and flexible and patient capital to really do the project in the right manner. So this gives us room. We don't have to sell anything from our book. That is our choice. But it is part of the mandate. In fact, our idea is to take this 425 million up to $1 billion. So the faster we use up this fund, the faster we can raise additional money because there are a lot of investors interested. In fact, ironically, the attraction of real estate in spite of all the gloom, doom that has been going on in India, from a lot of overseas point of view, a lot of overseas investors are seeing this as a great opportunity to make about 15%, 16%, give last mile funding. The risk return is very attractive. But it can't be done in an NBFC or a mutual fund format because of the ALM requirements. This require stable, patient, long-term capital, but that is available. The good news is as global yields have gone down, a lot of global investors have come and said, this is very attractive because even now making about 15%, 16% on a real estate project that is already 80% done is a fairly attractive opportunity. And there are not too many places in the world where you can make about 14%, 15% return even after factoring the rupee devaluation. This is a great return for a lot of insurance companies and pension funds and sovereign wealth funds. And this is what is will be a degrowth for NBFCs, which is anyway part of the plan. We wanted to do it over the years, will become a big opportunity on the asset management. And this last mile funding closures that we have done have demonstrated that we can get even for a slightly concerned area like real estate, which has been, we have got some high-quality investor coming in, in the middle of this and saying, "Oh, this is a great opportunity, and we want to put in 425, eventually $1 billion into this asset class."

Jignesh Shial: Understood. And number two, if I remember it right, you have been highlighting since Q3 FY '19 call that you did that consolidation is bound to happen in real estate, liquidity is going to drive our business. And now everything is going accurate. Now look, it's not something that Edelweiss is facing this issue. Even HDFC has grew 3% disbursement or AUM for the corporate book and all and so is the case with LIC Housing. I think the issue is not only from the demand side as well. How we are seeing the demand itself as pretty sluggish? Do you see that revival coming up? That individuals coming and buying flats or corporates putting more money into real estate, from the demand side I'm asking. Do you see that situation is changing?

Rashesh Shah: So I think if you see our investor presentation, we have added an appendix on real estate. There is a Slide 74, which shows that actually after 2017 post-demonetization, the real estate

sales volume will be inching up. In fact last 2 years, the sales volume growth as per JLL data is up 11% CAGR. So as I will keep on saying, sales is not a big issue. Pricing has also been flat. If you look at last, I think, 8 years, the pricing in real estate has been equal to inflation. So inflation -adjusted pricing has been flat. We have those charts and a lot of data on that. I think the problem as you correctly said, not just for real estate, but for all corporate and wholesale lending for the last 1 year and we have seen that with banks also who have a wholesale book. You see what happens in wholesale, usually, about 35% to 40% of the wholesale book is usually not only in India. All of the world is refinance-oriented while 60% of the book is paid out of the cash flows. That is how it works everywhere in the world. That if the total wholesale book is Rs. 100 for the economy, about 60 will get paid out of cash flows, and 40 will have to be refinanced. What has happened last 1 year, refinancing has completely come to a standstill, which has created the asset quality and cash flow issues, which have been there.

Compared to that on retail, the refinancing is not more than 10% or 12% globally. Because when you take a home loan, usually you will pay it out of your salary income every month. You are not looking at refinancing, part of that, over the next 3 years or 5 years. So usually, retail, SME loans have a much smaller component of refinancing, wholesale loans have 35% to 40% element of refinancing, which is where the problem has happened. I think it is demand and supply problem also because as the refinancing risk has come up, all of us will also become careful because we don't want to get caught in the absence of refinancing, the whirlpool that has started. Hopefully, the whirlpool is starting to end. So that is the first part.

The demand is there. In fact, even today, the demand is not that it's come down. But I think like, for example, on last mile funding, the demand for last mile funding for good economically viable projects is about 40,000 to 50,000 crores. But nobody is stepping in because real estate is a tainted opportunity because everybody said, "Oh my God, you're giving money to real estate." If you are a bank or an NBFC or a mutual fund, you will get hammered by your distributors, by the liability providers because this has become a bad opportunity. The market perception has been very binomial. If you see the slides after Slide 74 in our presentation, there is a difference between perception and data on the ground. But because of the perception, everybody has been careful, including us, because on the NBFC also doing these kind of deals, if the liquidity crunch continues, not only you will have a problem, your borrowers are going to have a problem. But in an AIF format, this is a great opportunity. So I think the demand is there. We are not seeing a scarcity of demand. Of course, there is not much demand for CAPEX. But for example, a lot of infrastructure assets are up for sale. Like I mentioned, the IL&FS assets. There are a lot of highways, good roads available for sale. There are a lot of power plants up for sale. And all these are good operating cash flow where you do not take an execution of the Greenfield project risk that is available. So if you have a couple of billion dollars to invest today, you can invest, you can't invest it overnight because this deal takes you 5 to 6 months. Like on the IL&FS road bidding, we've been working on this for 6 months. We spent 4 months of due diligence, then we submitted the bids. The bids were submitted 2 months ago. They just got approved last week. And in order to close this, there'll be an NCLT process and all that. We don't expect to close this before March 2020. So it takes time to deploy, but you can make a good return on this.

So I think deployment opportunity for all forms of credit have been there, except that, a) on the supply side, we all become careful. And on the demand side, the kind of credit people want, it takes time to deploy.

Moderator: We'll just move to the next question from the line of Aditya Jain from Citigroup.

Aditya Jain: On the asset quality, in 1Q, you had guided towards some 750 to 800 crores of credit cost for the full year. Is that still the expectation? And also related to this, are we likely to see 1 more quarter of NPA recognition and then largely flatlining from there?

Rashesh Shah: Yes. The answer to your second question is yes, because as we said, with this last-mile funding coming in, the projects taking off and all that and I think overall liquidity situation improving, we think things getting worse for the economy as a whole are not on the horizon. On the first one, yes, we still continue to guide towards 750 - 800 crores. Our normal credit cost should be about 400. On an average 30,000 crore book, 400 is about 1.3% credit cost. That 400 has gone to 800 because we will be at about 2.5% credit cost overall for the book as a whole. But I would say on the wholesale, I think the credit cost will be closer to 4, 4.5. And retail will be closer to about 150-odd basis points because a lot of retail is the loan against shares, ESOP funding book where there is not much credit cost, and the other is on the mortgages there also credit cost is lower, so a large part of the credit cost is wholesale.

Aditya Jain: Got it. And what is the reason behind the drop in coverage on Stage 3 loans from 47% to 39%?

Rashesh Shah: We have been following an ECL model. So it's very account by account. Because it's account specific, so there are a lot of loans where recoverability rates are very high. In fact, our expectation is that even on this Stage 3, the collateral cover is fairly good. So I think the end recoverability is fairly good when you do an NPV calculation. So I think increasingly, the current confusion for you, for us, for everybody is we are still in the NPA and the PCR mode because NPA/PCR mode was the old norms, which have been there, if that NPA has a formula-based provision coverage. Now in ECL, it's very account-to-account specific. So you will see swings from 1 quarter to another because if there is a high expected credit loss account, which gets resolved, suddenly, your ECL will or what is called your PCR will fall and will go up because I think we all have to get used to auditors, analysts, all of us, to an ECL mode rather than a PCR mode.

Aditya Jain: Alright. So it's not that this is driven by a revision in assumption, it is more that the mix of the Stage 3 loans had changed.

Rashesh Shah: Yes. Absolutely, absolutely yes.

Aditya Jain: Alright. And lastly, on the co-origination, could you give us some flavor of the types of loans that are being originated for Edelweiss?

Rashesh Shah: Yes. The 4 partnerships we have signed on different product programs. So we have done SME secured loan, which is also equivalent of SME LAP. We have done SME business loans. We

have done home loans under 50 lakhs with 1 bank. And we have done what is called the mid-market loans, which are between 1 crore to 20 crores with 1 bank. So I think it's from mid-market to secured SME, to unsecured or business SME, to home loans. We are talking to some other banks for LAP and other programs also, our idea is to take a product program. And what we have done over the last 5, 6 months is going to banks and said which area, which asset class, which product area you think we can help. We have these capabilities in all these areas. And then start to work on technology and overlapping the product program because even the KYC norms of banks are not the same as ours. So it takes time to align all of that. But the idea is that it will be mainly SME and retail, but this itself is a large one. As you know, we don't do auto, we don't do 2-wheelers, we don't do gold loans. So these are not in those areas. These are mainly home loan, SME, SME secured and LAP programs.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Sir, I have 2 questions. Sir, my first question was that in general, the bond market remains nervous about NBFCs. So what would be your message to bondholders? As in what would it take for you to have a rating upgrade.

Rashesh Shah: Well, I think in this time, I don't think we want to focus on rating upgrade and all that because I think that kind of volatility you don't want in your outlook. But I think what you correctly said, I think India, if you look at NBFCs, we are dependent on the bank market and the bond market. A large part of the bond market was driven by mutual funds, which has got dislocated completely. And I think from both redemptions and all because I think mutual funds are also caught into a bind because a lot of their liquidity providers were also wholesale, corporate, treasuries and all who have got very nervous after IL&FS. So I think one is that the mutual fund industry has done great, has evolved a lot on the equity side. And that's why I think equity side of the mutual fund industry is very evolved, very stable. And that's why SIP and all have continued. I think on the credit side, given the changes in the credit rating agencies and the trust that got broken on each and every one after the IL&FS crisis that after IL&FS said, everybody said we can't depend on anybody. So that has to be re-established. I think the mutual fund credit, part of the mutual fund will get reinvented. And the conversation a lot of mutual funds and SEBI and all are having, there will be a rethink on that. There will be a lot of smart credit analysts who will come about the dependency on credit rating agencies as the only source of decision-making will come down. So I think the bond markets have got dislocated. I would say the bond markets were at 100. They are at about 40 now because of the dislocation that has happened. The bank market is doing 100 a year ago. The bank market is back to about 70, 75. So overall, that is why NBFC still face a liquidity crunch, and we have seen growth of NBFC assets, for everybody come down.

I think the other thing I would tell the bondholders is look at liquidity, look at ALM, look at the track record. Governance part is very important because I think everybody thought that, I think irrespective of your track record and governance, the credit rating was the only thing that really mattered. That has started to change, I think. And for us, governance has been the

quality of partners we have attracted. As you've seen in the last 10 years from Tokio Marine to CDPQ, to Allianz, to Gallagher, to Meritz, we have attracted some of the best-quality global partners, including Kora and Sanaka and all as investors also. So we have focused on that as an endorsement. Even EdelGive, which is our foundation, if you see that slide, it has some of the best global partners on that part also. So I think governance is important. But governance is not, I think it's very obvious if I state this, one of the reasons we have got a little bit more push in the last 1 year is because we are not a corporate house. We are not promoted by a corporate house. We are not a business house-promoted NBFC. And that has put an extra onus on us to prove ourselves, which I hope that we have done. But I would say that the dependency on parentage, the blind dependency on just following credit rating will change. People will use all of that as inputs, they are not invalid inputs, they are very important and valid inputs, but people will do a lot more value added on their own. And on that count, I would say for the bondholders, look at data, look at track record, look at quality, look at all of that. And I do hope that the bond markets will normalize by March 2020. The bond markets have been scared. I think IL&FS, if you follow the economy theory was what was called the Hyman Minsky moment for the bond markets in India, and we are all living through that. It has happened in other markets in the world. So what we have gone through is not unusual from what has happened in other markets in the world. But we have to come back in our own way.

In equity markets, I have seen us coming back after Harshad Mehta, Ketan Parekh crisis. I think the same thing will be true with bond markets. We will be stronger a year down the line, but it has been a painful year, and it will take another 1 year to repair. But the good news is the bank market is coming back to normalcy a lot quicker because of the capitalization of banks as well as the liquidity and the interest rate cut and all. And that has been good for NBFCs.

Mahrukh Adajania: Got it, sir. Sir, my last question is that on the last-mile financing fund that you raised, so would that take care of all your near-term real estate financing issues?

Rashesh Shah: Yes. Again, I would not call them issues, they are needs because our portfolio needs completion financing. Now you can see the government had also launched a fund, a lot of the portfolio companies will also qualify for that. But our idea has been not to burden our balance sheet, not to burden our liquidity profile as a way of providing the last-mile funding and all. So this gives us a chance to maybe sell some wholesale accounts and use that liquidity and capital to grow the retail book faster. As I said, we see a lot of opportunity in retail, and we have invested in that. So this gives us a lot of flexibility. It also allows us to build an AIF platform in a very specialized way for last-mile funding, which is very scalable. And it got endorsement because even government announced 25,000 crores, a very similar opportunity platform. So I think it's a need of the economy. It's an opportunity out there. So it does give us liquidity options. It does give us the credit mix option because we do want to bring down wholesale and increase retail in our credit mix as we go forward. The other good news is that we have a lot of other investors on a similar kind of platform who are excited, and this is something we were doing. Last 3 years, we've been saying that wholesale will slowly and steadily shrink on the balance sheet, and retail will slowly and steadily grow in the balance sheet. That slow and steady has become a bit faster partly out of choice and partly out of the market environment.

Moderator: Thank you. The next question is from the line of K C Prasad from May Bank. Please go ahead.

K C Prasad: A couple of questions. As far as credit cost is concerned and if you see for the first half, which has gone up by to about 4,300 crores vis-à-vis 2,658 crores in the first half of FY '19, and in your last call, you mentioned that almost 2,000 a whole lot was from the wholesale book. So how much will you attribute, what percentage or a number, in the first half will be attributed to the credit cost from the wholesale book? That is my first question. And the second is that what is the collateral cover? Is it still at 1.8x? And my third was that why is the tax rate still at 34%, 35% vis-à-vis the tax rate which was reduced to 25%? So these are my 3 questions.

Rashesh Shah: On the tax rate, our CFO, S. Ranganathan, will answer. On the collateral cover on this Stage 3 and other accounts, we are at 1.6. So as I said earlier, collateral cover gives you comfort. But as we all know in credit, collateral cover is only one of the ingredients. Cash flow is another ingredient, which has been very challenged in the last 1 year. On the credit cost, we expect to be at about 800 crores for this year in terms of credit cost and what I call explicit credit cost. There is an implicit credit cost in terms of derecognition of income on few accounts because under Ind-AS, now even or something that is not an NPA, you can stop taking income into account. And that should be another 200 crores. So overall, it will be implicit of 200 and explicit of 800. Out of the 800 explicit, almost 80% to 82% will be wholesale and about 18%, 20% of this will be allocated to retail.

S. Ranganathan: Yes.Mr. Prasad, on the question of tax rate, I will draw your attention to the item number 7 on our press release. While the reduced tax rates have been given, there are certain conditions that are required to be completed. And we are looking at each of our entities, each of our subsidiaries, and we have time till the filing of return that is November 2020 to adopt that option. However, for the purpose of accounting, we will take a decision in respect of all the companies till 31st of March 2020. But in certain number of companies, we have taken it selectively. However, they have not been very material.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: So a few questions. So one is on the loan yields in the corporate book. So I think probably you referred to it in the previous question that there are implicit credit costs. So there was a sharp decline in loan yields in this quarter. So how should we think about loan yields going forward for the corporate book?

Rashesh Shah: I think it should broadly stabilize. Maybe it will go down by maybe another 100 basis points for the next 2 quarters and then start inching up again because, as I said in Ind-AS, you have this advantage because you know what used to happen earlier where an account is, you know that there is going to be some amount of stress in that account, but it is not yet an NPA. You keep on adding interest to that and pay tax on that. So I think by not taking income into account, even on a non-NPA basis, is a good thing, though there is a short-term cost to that. So I think our current yield was approximately, overall in the interest book, average interest rates

have gone to 14.6%. I would expect it to maybe fall by another about 40-50 basis points up to March and then start inching up again because this will be the effect of the derecognition of income. The other thing I would add Subu is what will happen going forward, a lot of our credit income will also come from co-origination and other fee income. So interestingly, especially for retail, SME book will also not be the key indicator, though it is not a problem for the next 4 quarters. But after that, we do expect that a lot of extra yield you will get, which will be from cross-sell and co-origination fees and all. I think that yield equation to ROE equation will undergo change. But I think we are 4 or 5 quarters away from that.

Subramanian Iyer: And the other question was for the ARC business. So what kind of growth expectations should we build there and also how to think about capital employed in the business on an incremental basis? I mean are you having to contribute more capital now in the new business there? Or should one model about 15%?

Rashesh Shah: I think about 12% to 15% would be our target. We don't want to grow it a lot faster than that. And 10% to 15% is what we would target on that because the opportunity is there. But the idea is not to grow that because, again, as I said, we want to keep ALM and other things in mind. So I think on our balance sheet, now the main focus area will be SME, on the retail and the ESOP financing book. So all these are great opportunities, and we would want to allocate more capital to those. ARC, if we can grow by 12% to 15%, we'll be happy.

Subramanian Iyer: Alright. A question on the Wealth business. There has been like quite a bit of decline in yields in the last few quarters. So where does it settle?

Rashesh Shah: I think the last couple of quarters, the decline in yield has been because we scaled back our ESOP funding book because ESOP funding book is also very, if your funding is commercial paper, it's a great book. Currently, it is not being funded with commercial paper, so the spreads on that have got impacted. I think after March 2020 when commercial paper markets come back, we'll only use commercial paper for this kind of liquid credit books, as we have said in the past. So I think overall, our current PAT yield is what we'll look at on the wealth management, it is about 13 basis points. We think normal should be about 18 to 20, 4 quarters from now.

Subramanian Iyer: Got it. And last question on the last-mile financing fund. So your contribution of $125 million, what would be the source of funds? Is it EGIA's equity? Or I mean how will you be funding that?

Rashesh Shah: No. I think our 125 would be transfer of the assets from our books. So let us assume all 425, out of 425, we keep 100 million for last-mile funding. So we keep that. And 325, we transfer from our credit book, NBFC to the fund. Then the credit book gets 325, out of which you'd invest back 125 and gets $200 million of free liquidity. So our 125 is not additional cash going on. We'll transfer $125 million worth of loans into that portfolio, and we can transfer more if we need additional liquidity.

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

Jignesh Shial: Just most of the questions have already been answered. Just one last thing, since you discussed about IL&FS during the last question, there is additional 25,000 crores that has been allocated by the government recently for the real estate stuck project and revival and all. Being a veteran, what's your sense over this? Do you think this is a smooth process? Will it be quickly sorted out and all? Or do you think it is a pretty longer process which might take a sizable amount of time just to sort out and all? And how financiers would get advantage out of this, if you can throw some light over this.

Rashesh Shah: So I think, first of all, as you've seen in some of the appendix we have given, the total credit book for the industry, banks and nonbanks put together on the real estate project financing, is about 5,30,000 crores. We think, currently 5% of that is NPA, which is, say, about 25,000 crores is already NPA. Worst case is, Another 10% needs last-mile funding, and it stuck for various because this 5,30,000 also include LRD and commercial real estate and all. So if you do the estimate, about 40,000 - 50,000 crores of last-mile funding is required, out of which government in this has fund given 25,000 crores. Now the good thing about last-mile funding is even if a fund approves to give a project of 100 crores, that 100 crores flows usually over 1 year. So you're giving only 10 – 10 crores every month because it is as per execution plan because you need money as you put more slabs and buy steel and cement and all that. So I think since the government is at 10,000 crores, the first thing they need to do is to close the 25,000 crores. I believe SBI will be about 10% of the funds. So they have indicated, they'll be 2,500 crore, LIC might be 4,000 - 5,000 crore. So I think the 15,000 to 20,000 crore in this fund will be quicker. Once we have that, they can continue to raise the balance money but also start deploying, so I expect the approval should come from next quarter onwards. Jan, Feb, March quarter, a lot of approvals will come. And then disbursement usually is on a planned basis, which is also not needed. Actually, the entire 25,000 crores is not quickly required. I think it will get executed faster because government has appointed SBI as the fund manager for that, SBI Caps. SBI Caps has a lot of expertise in last-mile completion. They have been advisors for a lot of stuck projects otherwise also. So they know how to evaluate a project, how to evaluate the cash flows. They do the discounting on that and all of that. And a lot of these are going to be RERA-approved projects. So on the RERA-approved project, our own experience has been due diligence is much easier because a lot of documents, land titles and all, are already cleared. So in a way, if this fund is only for RERA-approved projects, it can happen a lot faster. So on that count, I'm fairly positive on this getting disbursed. And this is more than enough, 25,000 crores.

Jignesh Shial: And does this change the overall perspective for the bond guys, I mean the debt market guys, their perspective towards the financiers, do you think that should be changing because of this? Because now, even the government is trying to help them out. So overall, the funding for the financiers, NBFC specifically, do you think that too ease because of this?

Rashesh Shah: I think it should ease. I think we've already seen the signs of that. What happened is there was a panic after IL&FS, then things were normalizing. Then we had Dewan in June, so there was a second round of panic. But now that liquidity, surplus, interest rates have come down, most of the NBFCs have, I think, reasonable liquidity. What I call is most NBFCs, all of them, have enough essential liquidity but not enough growth liquidity. So I think now we have to only solve the growth liquidity challenge, and that is partly the partial credit guarantee scheme will solve, partly will get solved with this last-mile funding, partly is getting solved because the bank financing has opened up because a lot of PCA banks have got capital in August from the government. So they also have been starting again. I think bond markets have been dislocated, but we are seeing the retail and HNI bond markets still being reasonably more stable. It's the mutual fund bond market which has got highly dislocated, but we are seeing signs of repair on that also. So I think it was more a psychological shock, and people thought anything could happen. I would think on a conservative basis, I think March 2020 is where the bond market should also start getting impact.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Asset Management. Please go ahead.

Vivek Ramakrishnan: Congratulations on the fund raise. I have a series of questions. So what I thought I'll do is just ask the question, you can pace the answer out because it's already been an hour. In the real estate and structured financing book, do you see a glide path in terms of the next few quarters? Can you guide in terms of how the book will come? I know immediately, there'll be a 2,100 - 2,300 crores of reduction post this new fund raise, but a natural competition and so on. So that's question 1. Question 2 is there's always been a theme in the market that there's been a shift in consolidation among developers, projects with poor developers are moving to better-quality developers. Are you seeing such a shift in your portfolio? The third question, in terms of the retail and SME portfolio. The economy seems quite weak at this point of time. Do you see any potential areas or stress there as we grow it? What do you think would be the key mitigants and I know because the amount of credit itself was low, you can extend an underwriting. But do you see any positives there? And that again ties in with the next question, which is on co-origination which is fourth question. How is the ROE on co-origination? It seems to be an extremely good product when done successfully. And the last question, sorry, would be on mortgage financing. You have a book of about 8,000 crores. Given the high cost of funding, would you see that, that will be more a sell-down strategy because I think you did mention home loans less than 50 lakhs as part of co-origination. But would you be more selling down that portfolio because that would give you a better ROE?

Rashesh Shah: Sure. Thanks a lot, Vivek. I think I'll try and quickly answer these questions, some of the very important ones. So I think on the wholesale book, our glide path has been to have a half-life of 2 years. So if the current wholesale portfolio is about 15,000 crores, it should become 7,500 crores in 2 years and maybe about 3,000 crores in 3 years after that. We can do it a bit faster, 1,000 crores here and there. Organically also, this portfolio was coming down by about 2,000 crores every year. Instead of 2,000, I think now it will be down by 3,000 to 4,000 crores every year is what our plan would be. So I think organic of about 2,000 crores, inorganic of another

1,500 odd crores every year for the next 3 years would be our target. We can tweak it a little bit, but our idea is to reallocate the capital for the retail credit business on NBFC and reallocate the people for the asset management on the wholesale side. So a lot of our wholesale rather than running a small book on wholesale, we would rather have this team raise $1 billion, $2 billion fund and continue to do that, but not on NBFC, in the fund management format. And we are one of the few firms which have this capability or opportunity to switch. We can toggle on wholesale from an NBFC model, which we are now through an asset management model, which is where we want to be. So I think I would say our half-life in the next 2 years, you should see about 7,000 to 8,000 crores on the wholesale book coming down, both organically and inorganically.

I think developer consolidation has been happening at a project level. We ourselves have done about 10 of the projects where we have got in a development partner. And usually, along with last-mile funding in some projects, we also make sure there is a change in developer because it's not just execution, it's also sales. And sometimes, a new developer also brings a lot of credibility for sales from a sales point of view. So I think that is going on. And usually, that will be the model for a lot of projects where the weaker developer or where the names are not good enough, they will become more the passive or the silent partner. And you will get a development manager or the developed partner will be a very high-quality name who will take a 10% fee for good, economically viable projects. I think the problem earlier for getting a new developer was not economics but was more the cleanliness and the due diligence and all. Fortunately, if it is a project which is RERA-compliant, a large part of that risk is going away. I think all of us are underestimating how much impact that a RERA-approved project has on all these issues of due diligence and last-mile funding and change of developer because 80% of the boxes are, a lot of information is available. A lot of credit is there in terms of ownership of land title and all. Currently, a lot of the problems we are seeing, whether it's those cases in Delhi, are all pre-RERA projects. So I think fortunately, after RERA, a lot of the dependency has improved, and we will see that in the coming years, currently, we are not able to appreciate it as much. But you are absolutely right, consolidation and partnerships will happen.

I think on retail and SME, things are okay because a lot of this got stress-tested after demonetization and GST. So the ones who have been able to be okay after GST and demonetization are still okay. The economy is not doing well, the working capital cycles have got elongated. The information we have is also improved, along with GST, our ability to get proactive, early warning signals has gone up. Collection analytics have gone up a lot because a lot of your asset quality on retail side is also a function of collections efficiency. And we have seen that. I think we have stepped up a lot in the last 1 year where your cheque bounce has gone up, but your NPA has not gone up because your collection efficiency has gone up. So I think with analytics and all that is also helping the industry on the retail and SME side.

I think you are very right; I think co-origination is a very good, high-ROE product. It varies from product to product. But I would say it is very attractive, if you can get it right. But in order to get it right, a lot of hard work and technology investments have to go into that. And it requires focus. We already have a specialized team who are focusing only on co-originations

partnership with banks because it takes 3 to 4 months to sign a bank partnership itself. So it requires a lot of allocation of resources and focus. And on the mortgages, you are right. I think we will do sell-down. We will also do a lot of funding with NHB because the spreads, when you got NHB funding, ALM and spreads are a lot more healthy. And there are still pockets in mortgages where you can't build a large book but you can build 3,000 crores, 4,000 crores, 5,000 crore books of small-ticket home loans and all, self-employed LAP kind of products, which still do well.

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

Renish Bhuva: So just a quick question on, again, on the retail plus the wholesale side. So our trade book ex asset reconstruction is close to 13,000 crores now. So what sort of loan book do you foresee by the end of '20 and '21, including co-origination and run down on the wholesale side?

Rashesh Shah: So I think for the next 4 quarters, our approach is the book overall size should remain the same. And as I said, wholesale should come down by about 3,000 to 4,000 crores, and we should increase retail by 3,000 to 4,000 crores. In a way it is good news because this doesn't put excessive pressure on liquidity because we are taking liquidity away from wholesale and putting it into retail. So we don't want to grow the asset side aggressively. But obviously, 4,000 crores of retail in 1 year is also not a bad number because with that 4,000 of our own book, we would do another 3,000 crores to 4,000 crores of third-party AUM via co-origination. So I think currently, our capacity is to do about 800 to 1,000 crores on retail side every month. So if you use even 10,000 crores of our capacity, our own book can grow by 4,000 - 5,000 crores, and the third-party can be 4,000 - 5,000 crores. So that's our target. But the growth of 4,000 - 5,000 crores, our book will also be offset by the reduction in the wholesale of 3,000 to 4,000 crores.

Renish Bhuva: Right. So just again a follow-up on that. So even on retail side, our growth is actually, there's a decline in the retail book also by 25% Y-o-Y. So when we say we'll replace those 4,000 crores of run down wholesale book, are we seeing any green shoots on the retail side? And are we all ready to grow from next quarter onwards or it will be a little back-ended towards the end of third and fourth quarter? So basically then, it will be FY '21 or then it will be FY '20 story?

Rashesh Shah: I was focused on SME and mortgages as retail. The degrowth in retail that you are seeing is mainly because of the ESOP financing and the loan against shares book, which, as I said, we will scale it up. There is a demand out there, and this capital that we have raised in the Wealth Management business will give us enough capitalization. We will scale it up a lot faster if the commercial paper market comes back to normalcy in the next 2, 3 quarters. So that is a very tactical scale-up that will be there. On the ESOP financing and loan against shares, yes, we can easily, in 4 or 5 months, add about 4,000 - 5,000 crores. We can do 1,000 crores a month on that book if we have good quality funding via commercial paper market and we have some reasonably good balance sheet size, which we will have after this capital raise. So I'm excluding the loan against shares and the ESOP financing from the retail book.

Renish Bhuva: Okay. But on a blended basis, would you like to guide anything?

Rashesh Shah: No. I think because as I said, part of this is tactical, part of this is 1,000 crores here and there. But I think broadly, as I said, in SME and retail, we would like to add about 4,000 crores in the next 1 year.

Renish Bhuva: Next 1 year. Okay. Right. And then sir, last question from my side. On each of the vertical: wholesale credit, retail credit plus wealth and ARC separately, what will be Edel's stake post a full dilution of CDPQ and Kora and other partners?

Rashesh Shah: So as I said earlier, in the credit business, the CDPQ stake, as and when it gets converted after 5 years, will be anywhere between 14%, 15% to 21%, 22% in that range, depending on our profitability, ROA, PAT in that year. So it will be in that range on the credit side. On the...

Renish Bhuva: Credit you mean is only retail and wholesale, right, ex ARC.

Rashesh Shah: NBFC, yes. Basically, they have invested in the NBFC ECL finance, and they would have invested 1,800 crores in that business for which they will have anywhere between 14%, 15% to 21%, 22% at the conversion time. On the advisory side, we're expecting the pre-money valuation to be about 8,000 crores. So assuming we have raised about 1,000 crores, it will be 1,000 upon 9,000 crores, so about approximately 11%, 12% stake. And we will have about 85% to 88% stake or on somewhere between 85% and 90% will be ours, and about 10% to 15% will be with the investors in the advisory business.

Renish Bhuva: But sir, in Advisory, I think some part is already owned by employees and some other entities. So what will be the actual Edel stake?

Rashesh Shah: No. Currently, in the EGIA which is the advisory leg, ECL Finance is the entity for credit. EGIA, Edelweiss Global Investment Advisors, is the entity for advisory business. There is no employee ownership in that. We will give ESOPs in that to our employees of EGIA in that in the future. So currently, as per current structure, whatever investors have invested, 1,000 crores after they invest should give them about 10% to 15% equity in that business.

Renish Bhuva: Right, sir. And on the ARC side?

Rashesh Shah: ARC, we are currently 60%. That has been steady. And it will remain that. And if we are buying more stake in that, we will announce it. So we own 60% of ARC, and we will own about 85% to 90% of EGIA after full conversion.

Renish Bhuva: Right. And around 80% in credit business?

Rashesh Shah: Yes.

Moderator: Thank you. We have to conclude the call now. You may please contact Edelweiss IR team for additional information. Over to the management for any closing comments.

Rashesh Shah: Yes. Again, thanks a lot. I think a lot of these questions have been very interesting, and I really enjoy interacting with all of you. So thank you for taking the time out. We obviously are available for any specific information that you need. Our team members are in touch with you, and I do look forward to interacting with you. And we hope that India in the coming year is back on the growth path. Thank you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Financial Services Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.