# Edelweiss Financial Services Limited

## Q4 and FY18 Earning Conference Call
## May 04, 2018

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**Moderator** Ladies and gentlemen, good day and welcome to Edelweiss Financial Services Limited Q4 and FY18 Earning 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, sir.

**Shiv Muttoo** Good evening, everyone. Thank you for joining us on the Q4 and FY18 Results Conference Call of Edelweiss Financial Services Limited. We have with us, Mr. Rashesh Shah – Chairman & 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 the stakeholders' team, Ramya Rajagopalan – Head, Corporate Development, Salil Bawa – Head and Senior Vice President, Stakeholder Relations and Samridhi Deorah – Senior Manager, Stakeholder Relations.

Before we begin, 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. The detailed statement in this regard is available on the results documents shared with you earlier. I would now like to hand over the call to Mr. Rashesh Shah to begin proceedings of the call.

**Rashesh Shah** Thank you, Shiv and good afternoon to all of you and you would have seen FY18 has been a good year, good growth year for us.

Our consolidated PAT was 890 crore, Y-o-Y growth of 46% and the key thing that we look at is the ex-insurance PAT which has now crossed 1,000 crore. It was 1,036 crore for the year which was a Y-o-Y growth of 44%. So, overall good growth here, I think one of the higher growth years in the last seven years that we have had. And importantly, in this year what I am very happy about is the franchise and advisory business – our fee earning businesses – Asset Management, Wealth Management, Capital Markets contributed about 34% of the profit after tax but in Q4 it was about 40%. So, franchise and advisory business now really coming of age, it is something we have been speaking with you over the last few quarters. Our profitability has improved, ROE ex-insurance at 22.1% for the full year and consolidated ROE of 17.1%. ROE came down a little bit in Q4 because of the capital raise that we did in the last quarter but overall we areconfident of maintaining this going forward.

Our ROA was 2.6% ex-insurance and 2% consolidated ROA. So, overall, our total assets crossed 2,25,000 crore which includes about 55,000 crore of balance sheet assets and 1,69,000 crore of customer assets in our Wealth Management, Asset

Management and our custody business. So, it been a great year for us, it is actually one of the more important years. In this year, we raised 1,500 crore of equity capital in EFSL, for the first time actually, almost 10 years after our IPO when we raised equity money in Edelweiss Financial Services. So, we have grown in the last few years without any equity raise at EFSL and also at a group level not much capital raising has been done.

What is also important for this capital raise was we got some marquee investors like CDPQ, HDFC Mutual Fund, Kotak Mutual Fund and others. Also, in this year we signed a long-term partnership with Indian Olympic Association to be the sponsor for the Indian contingent for the Commonwealth Games which has just recently concluded. We are sponsors for the Asian Games 2018, Indian team and for the National Games and Olympics 2020 in Tokyo. So, our focus on sports especially sports outside of cricket, more Olympics-oriented, has continued to grow and this was a key year for that.

And the last important thing that happened this year is we crossed 10,000 people in the Edelweiss family. So, obviously head count always comes with – we all need space and infrastructure and attendant compensation cost – I think, it also highlights growth. And our effort has also been to create value by providing great working atmosphere for our people. So, the Edelweiss family has now grown to more than 10,000 people.

The key things for this year were – one is consistent growth, for continued 28 quarters we have maintained our PAT growth at 38% CAGR over seven years now. And we hope that going forward we will be able to continue to maintain this, though our guidance is always to maintain growth intact between 25% and 35% consistently over a long-term basis. This is Slide #16, we have highlighted this and in the last seven years our profit after tax has grown from 128 crore to 890 crore, which is 7x growth.

The other highlight of our business is the diversification we have. If you see Slide #8 in our presentation, it highlights that all the businesses are now contributing significantly to our PAT but no one business is a big contributor. Our Asset Management, Wealth Management contributes about 15% to our PAT, our distressed credit is 17% to PAT, structured credit is 14%. So, overall we have a very well-diversified stream of earnings and with each of these businesses have lot of head room for growth going forward. The third interesting element is now our organization is becoming more and more retail – along with diversification, we also got a lot of focus on retail. Our retail credit over the last few years has grown at 48% CAGR. And even that growth has been – Phase-I was building the platform and Phase-II was achieving scale which in this year we have started to rapidly grow that. And even in our insurance business and wealth management business, retail where we deal with individual customers has been a strong growth area.

Our retail credit is now with more than 16,000 crore which is 39% of our total credit book. As you all know friends, we want to be above 50% of contribution of retail credit in our total credit by 2020 and we feel confident of being able to get that. On the wealth management side, our assets under advice have crossed 90,000 crore. We started the year at 60,000 crore, so a 50% growth in AUA in this business in this year. We continue to grow our life insurance business and our assets management business also rapidly. You see on Slide #13, we have made a lot of initiatives in technology because as we are becoming more retail we are also investing a lot more in technology. So, both for operational efficiency but also for customer experience, and we want to make sure that the entire customer life cycle from application to experience to risk management in each of these we use technology in a big way. So, it is Slide #12 and 13 also shows the effect of that.

Slide 12 shows that the cost-to-income ratio has also been falling as we have been getting scaled but as also we have been becoming more efficient.

The other thing this year has been the franchise and advisory business which is highlighted on Slide #26 and the profit after tax from this business has grown at 60% on a Y-o-Y basis. As I said earlier, wealth management had 50% growth in AUM. Our mutual fund has crossed 10,000 crore of AUM, it is now currently 11,500 and overall assets under management are now 29,000 between mutual funds and the alternatives.

The final thing has been the strengthening of the balance sheet. We obviously had spoken about the equity raise that we did but along with this we continued to maintain a strong liquidity cushion at 5,200 crore which is Slide #54 and we have strengthened our balance sheet by more long-term borrowing which is in Slide #51. So, more than 58% of the borrowings are now long-term which a few years ago used to be under about 35%. So, we have significantly enhanced the long-term borrowing which also insures us from interest rate variation but also gives a lot of strength to our asset-liability profile.

Going forward friends, India looks very exciting, financial services continues to look very exciting. We still believe that India will be $5 trillion GDP by 2025 but most of the financial services whether it is asset management, wealth management, mortgages, SME credit or insurance, all of this will grow at 3 to 4 times from where we are now. So, in the next seven years, a 3x growth is highly visible and some of the segments will have 4x growth and that is very exciting to all of us. Though this growth comes with some ups and downs, our ability to manage those ups and downs is going to be challenging but also rewarding. We are fairly well placed. We are making a lot of investments, our new horizon is now 2025. A few years ago, we were looking at 2020 but now have also changed the goal post and we are going towards 2025. And we have done a lot of assumptions around market sizing and all on that and started to make investments in people, in technology, in platforms keeping in mind the growth that is possible in the next few years.

On the asset quality we are fairly comfortable. We are seeing that overall our asset quality is as per the plan as per the business model we have. But even in the environment, though some of the financial services companies have been growing fairly fast, we have seen that the system credit is not growing very fast. We think the overall system credit is still growing at about 13-14% per annum which ensures that there is no overheating. There is no undue giving credit to anybody and everybody for artificial growth. So, overall system is growing at 13-14% but most of the private sector financial services players are growing at 25-40% and we are also in that range. And part of that is happening because of the NPA crisis in the banking system, especially on PSU banks. A lot of banks are under the PCA framework which is not allowing them to grow aggressively and a lot of the good customers of those banks, they need credit for growth and they are starting to go out and their credit needs are being serviced by NBFCs and private sector banks.

We are also seeing good asset quality traction on the realization from NCLT. There is a little bit of litigation and testing of the law going on. We remain fairly bullish, in fact the realizations on NCLT are somewhere between 10% to 20% higher than what was originally estimated. So, they just show that economy is coming back, our confidence is coming back, and even spirits are coming back and the asset quality is also under control. So, the other is on interest rates. There is no concern around interest rate going up. Currently, the gap between G-Sec and repo rate is about 180 basis points, which is actually one of the highest it has been in recent times. What it means is either G-Sec has to come down or repo rates have to go up, in a way RBI will raise rates. If RBI raises rates, for the bond market it is not a big concern, because the bond market has already factored it and that is why the gap between G-Sec and repo is so sharp.

So, we do not expect bond market cost to go up a lot. If the repo goes up, the bank cost might go up a little bit but overall we do not see more than 25 basis points increase in cost of funds for some of the segments in this year. And that is in our planning, we have already factored that in and the way our ALM works is that whatever is the increase in our cost, around 50% to 60% is automatically transmitted through the floating interest rate. So, we have to worry only if there is a 25% rise in interest rate, we have to worry only about 10 to 12 basis points on how to observe through efficiency and through other innovative product mix changes. So, we do not see that as a big concern in this coming year as we go forward. And we are confident that we should be able to maintain credit ROE at around 18% with a long-term target on credit ROE at about 20%. So good FY19 for Edelweiss, both quantitatively and qualitatively. As we have said in the past we will continue to build on our focus on risk, focus on organization building, focus on people and more importantly focus on our customers to continue to deliver value for them.

With that, I now hand over to my colleague S. Ranganathan, our CFO who will take you through the other details.

**S. Ranganathan** Thank you, Rashesh and welcome you once again for the Conference Call. Let me quickly take you through the Q4 Earnings Update.

I am happy to announce that we recorded profit after tax of Rs. 248 crore in Q4 FY18, registering a year-on-year growth of 46% against Q4 FY17 after tax profits. Ex-insurance ROE for the quarter stands at 21.6%. Our total revenue for Q4 FY18 is Rs. 2,623 crore, up 35% year-on-year. Consolidated profit after tax of Rs. 248 crore is up 46% year-on-year when compared to the Q4 FY17 results of Rs. 170 crore. Ex insurance profit after tax of Rs. 308 crore compared to 212 crore in Q4 of FY17, is up 45%. Our balance sheet size also grew by 42% year-on-year to stand at 55,086 crore.

This is how our main businesses have fared this this quarter. Credit business profit after tax grew year-on-year by 50%. Retail book particularly added well this quarter. Corporate credit and distressed credit have also showed significant growth. Franchise and advisory business profit after tax grew year-on-year by 28%. This segment includes fee-based businesses, namely Wealth Management, Asset Management and Capital Markets. Our operating efficiencies have also improved quite well. The ex-insurance cost-to-income ratio for the quarter was 45% as against 51% in Q4 FY17. Credit cost remains well under control with GNPAs of 1.75% and NNPA of 0.7%. The collaterals cover for corporate book remains robust at 2.1 X and the LTV on the retail book stands at 45%. Consolidated return on assets for the quarter stood at 1.8% and ex-insurance at 2.8%. Consolidated return on equity for the quarter stood at 15.3% and ex-insurance return on equity at 21.6%.

Let me now give you some highlights for the year as a whole:

Our total revenue for FY18 stands at Rs. 8,623 crore up 30% year-on-year. Consolidated after tax profit of 890 crore compared to FY17 of 609 crore – shows 46% growth. Health insurance profit after tax of 1,036 crore, up 44% when compared to 719 crore for FY17. Credit business profit after tax grew by 44% year-on-year to Rs. 645 crore from 447 crore. Franchise and advisory business profit after tax of 308 crore is up 60% compared to 193 crore of FY17. Consolidated return on assets for the year stood at 2% and ex-insurance return on assets stood at 2.6%. Consolidated return on equity for the year stood at 17.1% and ex-insurance ROE at 22.1%. Consolidated cost-to-income ratio stands at 60%.

Let us now look at the individual heads of income for the quarter:

Our fund-based income has grown 35% year-on-year, stands at Rs. 1,637 crore in Q4 FY18. Fee and commission at 616 crore in Q4 2018 is up 28% year-on-year. Our Life Insurance business continues to be one of the fastest growing life insurance companies in the industry and recorded a net premium of Rs. 305 crore during the last quarter, growth of 52%. Looking at the cost, the borrowings have increased from 43,379 crore a year ago to 47,323 crore in line with the scale of our operations. The finance cost overall grew by 31%. However, the weighted average cost of debt has improved to 9.2% in Q4. Our NIMs also continue to remain strong. On the head count, we stand at 10,052 as on 31st of March 2018 as compared to 6,972 a year ago. This led to a year-on-year growth in the employee cost of 34% as we continue to make significant investments in our key growth areas to build up the scale. Operating expenses, excluding employee and credit cost, grew at 28% year-on-year which is in line with our revenue growth of 36%. Opex growth is mainly led by higher advertising and business-related expenses and legal fees especially in growing businesses like Life Insurance and Retail Credit.

Coming to the balance sheet:

We continue to take steps to strengthen our balance sheet. Our consolidated capital adequacy at the end of Q4 FY18 stood at 17.04%. We have a comfortably matched ALM and liquidity profile over the short and medium term. We continue to add new lenders – insurance companies, pension funds and provident fund – in addition to the banks and mutual funds to make sure that we have diversified sources of borrowing. Post our last call we have successfully raised fresh equity of 1,528 crore at EFSL through a QIP in Q3 that saw participation of marquee investors that Rashesh spoke about. Post equity infusion, our debt to equity ratio, ex-treasury assets, has come down from 5.6 as on September 2017 to 4.9 as we speak now.

Turning to the credit business highlights, the credit book stood at 42,010 crore at the end of 2018. The retail credit book comprising of housing finance, loans against property, SME, loans against securities and agri finance has been growing continuously. At the end of Q4 FY18 the retail credit book size was 16,188 crore. The corporate credit book continues to do well in structured collateralized credit and wholesale mortgages. The book is well managed in terms of credit and risk and we have avoided undue sector or industry concentration. The asset quality of the credit book continues to be under control with gross NPA as at the end of FY2018 at 1.75% and net NP of 0.7%. The total provision covers stands at 81%. The capital employed in the distressed credit business stands out 6,297 crore with an AUM of 44,100 crore. The cost-to-income ratio of the credit business has improved well and currently stands at 30% of Q4 FY2018.

Looking at the franchise and advisory business, which comprises of wealth management, asset management and capital markets – Wealth AUA stands at 90,100 crore as at the end of Q4 FY2018. As you can see, over the years we have increased the proportion of advisory assets to our AUA. Also, net new money has considerably contributed to the increase in AUA during the year.

Our asset management business grew pretty well, and we are happy to share that this AUM has grown from 18,200 crore to 29,200 crore as of March 2018. Capital market business continues to be a pioneer and the market leader. Coming to insurance, the net premium for the quarter went up by 52% to 305 crore. The insurance business is scaling as per plan. Edelweiss Tokio Life Insurance has a net worth of 1,156 crore as on March 2018. We are happy to also report that the embedded value of our Life Insurance business stands at Rs. 1,635 crore as at March 2018.

With this, we complete the Q4 review. We are open for questions and answers.

**Moderator** Thank you very much. We will now begin the question answer session. We take the first question from the line of Avinash Singh from SBI Cap Securities. Please go ahead.

**Avinash Singh** Good set of numbers, congratulations. Few questions. The first one is that the on-book, on-balance sheet loan growth in the wholesale segment has come significantly higher because I guess earlier we were thinking to sort of securitize or take that to fund and on book loan growth to be in the range of 20% and now it is close to 40% and that has led to increased capital consumption and again our Tier-1 ratio is where it was at FY2017. So put some color on what exactly is the strategy regarding this on-balance sheet loan book growth in the wholesale segment and our capital position. That is my question number 1. Second question is again sort of a guidance in terms of credit cost, so I mean overall credit cost has increased in FY2018 and particularly if I work out the number in the wholesale segment there seems to be sort of a spike from close to 190 basis point in FY2017, now it looks closer to 300 basis points for FY2018. So, there also we have seen strong loan book growth. So, I mean, is it something that we are compromising on the credit quality because provisioning cost is going high and we are still growing at 40%. That was my question number 2. And one more, third question is that what amount of capital you were infusing the general Insurance business and what kind of capital bond rate you see over the next 2-3 years, thank you.

**Rashesh Shah** Thanks. I think the first one, we still expect our on-book corporate credit book to grow at about 20% or so which is what we have been guiding. We had a good year in that because I think we had the capacity since we are seeing a lot of very high-quality opportunities in the corporate book. Especially in the recent last few months, as RBI has strengthened their reviews, a lot more corporates are becoming proactive and thus the need for structured credit. See again a lot of these are high quality borrowers who need a loan which is structured as per their cash flow needs. So there is good quality collateral but there is a lot of structure that goes into this and the market is actually growing much faster than what was originally happening. So, all around us we see a huge amount of demand from corporates. This is not like what used happened earlier in the banking system when people where giving a standard, plain-vanilla, unstructured kind of loans and then when there was any cash flow issue, people thought we will restructure it. Now, that has gone away because you have to plan for what the cash flows are going to be at the time of underwriting itself and that has been our skillset over the years. It is not that you can earn a higher yield because of higher risk but you earn a higher yield because you are structuring the loan as per the cash flow availability of the customers and ensuring that you have enough good quality collateral and earning a good yield. So, that market is doing very well. We are raising some funds also, so we expect that we and our funds put together will be able to capture this market and in the long-term we will end up growing at about 20% is what our expectation is and we see very good demand. In this quarter, we ended up actually booking some of the loans which were going to be in April, which came in March. So, as a result of that you might see this growth, but our long-term trajectory is going to be that. Along with that our expectation of retail being more than 50% of the total credit book, we are on track for that so that will happen. Retail, we grew a lot faster than the corporate book. In terms of credit cost, this was also the year – though we have a lot of collateral and we can recover the loans – whenever we saw a little bit of edginess, we have provided for that because our internal risk management approach has been – first is clients selection, then structuring as per the cash flows of the client, then post-disbursement, risk monitoring and management and fourth aggressive provisioning so that you are never under provided for any eventuality. So, our internal target has been to provide first and then when you recover, you can write it back. So, we have more aggressive in providing in this year and we have the earnings, so we will continue with that. We would rather provide aggressively than hope to under provide and recover the money afterwards. So, I think, what you are seeing in credit cost is actually that. Especially on the wholesale accounts, though we are not seeing any real loss, we have just earmarked which ever accounts were on the edge as NPAs and started providing for those. The last is on our general insurance, we expect to burn about 50 crore a year for the next 4 to 5 years. We are hoping for a breakeven at the end of 5 years and the operating burn should be about 50 crore a year on that.

**Avinash Singh** So, just a follow up. The first one is that because of this loan growth, our capital ratio Tier-1 has come to 14%, so what sort of a capital strategy we have. And on the last question of general insurance, would you be looking for a partner, again a strategic partner here? These are the two questions.

**Rashesh Shah** Yes, we have been talking to a lot of people. In fact, the current capital that is available globally for private credit especially these kind of wholesale deals which earn you 14-15-16-17% return is actually very high and there are lot of global funds who were talking to us. So as and when there is the right partner, right opportunity we be able to do that? We already have a few funds under management where we are already partnering with the Canadian pension fund, and on the real estate we are raising a $800 million fund. So, I think capital is available and interestingly this market is starting to become interesting because, as I said earlier, the banks have not been good at structuring and now structuring is becoming a key requirement for most these kind of corporate loans.

**Avinash Singh** My question was more on equity raise side because our Tier-1 capital is now 14% again – back to FY2017 level – and this kind of growth again will need further equity.

**Rashesh Shah** I think, our overall capital adequacy is at 17%, which is still adequate for at least growth for the next year to 18 months even at this clip. And on the Retail side, we will continue to grow especially on the housing side where capital adequacy is lower. What is more important is to look at the debt-equity which is currently at about – on Slide #52 – which is at 4.9 and we can go up to 6 on this. So, we are good for the next year to 18 months at least even at this clip. And as you very correctly said, we can always sell down and securitize these loans if at all we see that we do not have enough equity. Currently, we are not worried about not having enough equity. I think the environment is doing well and we should be able to maintain overall growth rate. As I said, credit growth rate on corporate we maintain only at about 20% or so that is our expectation going forward.

**Avinash Singh** And any strategic partners in general insurance that you are looking for?

**Rashesh Shah** We are not looking for but there a lot of them who are coming and talking to us. But currently our intention is to go on our own for the next couple of years.

**Moderator** Thank you. We take the next question from the line of Renish Bhuva from ICICI Securities.

**Renish Bhuva** Sir, follow up on the credit growth side. I understand that we have been growing pretty aggressively on the structured credit part because of the vacant space. But even if we look at the wholesale real estate, the incremental disbursement, net disbursement in Q4 appears to be a little higher at close to about 2,000 crore vis-à-vis the last three quarters when it was pretty flat. So, can you please throw some light on the incremental players or average ticket size, etc.?

**Rashesh Shah** I think couple of them, one was in the last quarter. The earlier quarter we were going slightly slower on some of the proposals because we were busy with our own equity capital raise. And we wanted to first complete the raise before we activate the pipeline. So, the pipeline was very healthy but we were not moving very fast on that. Once we got our capital raise done, we had the room and along with that in this quarter the market also expanded and we also had very good opportunities. So, on wholesale we will always see a quarter here and there when things will get bunched up. So, I would not see a lot into the fourth quarter. I think, if you see the combined third and fourth quarter, we are fairly okay. So, it is still fairly higher than what our earlier rate was, which is largely because the market has opened up. But in third quarter we were slightly slower.

**Renish Bhuva** But sir, just wanted to get a sense, though incremental disbursement is actually as per our defined policy, and not because of higher ticket size that we have seen this growth.

**Rashesh Shah** No, it is as per, actually we are doing the same thing. In fact, we have raised the bar because the pipeline is so much healthier. So, we internally monitor something called origination to approval ratio and we were always operating at about 25% which means if you originate 1,000 crore worth of loans we only approved 250 crore. That essentially has improved, we are now at about 18% or 19% approval rate from origination. The market has become more active, so the origination or the proposals that are coming have expanded a lot and we have actually tightened it to just cherry-pick the high quality risk-return-reward opportunities that we have.

**Renish Bhuva** Just a follow up on the retail loan growth side. So, retail loan growth for FY18 is pretty robust at almost 80% and most of it is driven by loan against shares which almost doubled during the year. So, going forward sir, do you think this kind of traction in this segment to continue or there should be some moderation going forward on it?

**Rashesh Shah** Yes, I think it is an important question. If you see, overall our retail credit book also grew at 81%. Our current target is about 45% to 50%. So, that extra growth happened in loans against shares but a large part of loans against shares is our product called ESOP financing. As you may know, we are the leaders in ESOP funding and I think given the way the market was last year we are seeing a huge amount of market demand. Usually, executives of companies who are exercising ESOPs, and we fund their exercise of ESOPs, they normally hold it for a year to get the long-term capital gains and then they sell. And they become our clients on the wealth management side. So, we are the market leaders in ESOP financing and we have been in this for the last eight years. This year, we saw strong growth in ESOP funding which is actually very refreshing because it just shows that the Indian corporate sector is also coming of age and a lot of large companies, I think in the BSE top 300-400 companies, a lot of them now have ESOPs that they offer to their employees and we see this also as a fairly good opportunity. If we look at globally, go to the US and most of the wealth managers have something called a stock plan business and stock financing business, this is becoming more and more similar to that. So, we are actually very pleasantly surprised as the growth in the ESOP funding business which is a lot more steady and secular unlike your normal margin funding business. Margin funding business goes up and down but ESOP finance will give you a more stable business.

**Renish Bhuva** Sir, as you rightly mentioned, margin funding is pretty much a capital market sensitive business as against ESOP funding. So, going forward what sort of growth you expect especially on the loan against share. I mean, 100% every year I believe is not doable.

**Rashesh Shah** As I said, we want to maintain the overall retail credit growth of 40-50%. So, I think we will be happy for this part of the business growing at even 30-40% because I think SME, mortgages and now agri, we have also started growing a lot more aggressively.

**Renish Bhuva** So, now just the last question if you can allow me. So, on the wealth side, sir though our AUM has grown almost 50% but if I look at the net revenue, the growth is a little lower than the overall AUA growth. So sir, what might be the reason – I guess mathematically it is purely because of the lower asset deals on incremental wealth which we got – but you can just highlight a little insight into it, would be more helpful.

**Rashesh Shah** I think again when you see AUM growth versus our average AUM. So I think our average AUM as it will not be 50% growth it might be closer to 40% growth and the yields also might be lower by about 5-10% than what it was last year. Because there was rapid growth in the second half, we did not get the benefit of that for the whole year. So, I think when we look at average AUM not the end of year AUM, what is currently in the presentation is the end of period AUM.

**Renish Bhuva** So, this is just because of the lower average AUA growth than what it appears on the year end numbers basically?

**Rashesh Shah** Yes.

**Moderator** Thank you. We take the next question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

**Subramanian Iyer** So, first on the asset quality bit. So, take your point on the higher provisioning this quarter but also, if we run some rough computations, we find that there is a rise in NPA formation as well. Also noted this in the fourth quarter last year as well. So, is it some kind of, I would say, recognition of weak accounts or proactive classification as NPA or how should we read it? So, that was one question. The other question I had was basically if you could provide a spilt of your credit cost into retail, wholesale and if at all there is some provisioning on the ARC side as well. And my last question is basically some guidance into how should we see things under Ind-AS?

**Rashesh Shah** So, I think on the first one, as I said earlier, we have been classifying accounts and just providing for that because over the years we have seen that it is usually a much actually better way of managing the risk than trying to hope that you will recover and trying to push the can further down to the road. So, we have, if you see on Slide #30, our provisions and write-offs are now 616 crore for the year. So, this is what we call the credit cost and the kind of NIMs we have actually budget this credit cost in the NIM itself. Our average expectation is that our actual credit cost should be about 50 to 60 basis points of the loan book. We are currently providing 125 to 130 basis points on the closing credit book. If you take on the opening book it might be above 200 odd basis points on that. So, we are providing with the intention that as we start liquidating this collateral, we can start getting the claw backs on that. Because if you will see most of the banks, there are two kinds of approaches most people follow. One is to provide as required and the other is to provide ahead of the curve. We have always followed the process of providing ahead of the curve. In terms of the credit cost between wholesale, distressed and retail, approximately – and I am giving very approximate numbers because we do not have the exact break down – about 65 odd we did on the wholesale side and the balance would be equally divided between distressed and retail side in terms of the credit cost that we have. And we think we will maintain that as we go forward. So, as I said, our actual credit cost we expect to be about 50 basis points of the loan outstanding on any given year. And that is how we do the internal field analysis as a whole. But the idea is to provide more and be more conservative.

**Subramanian Iyer** And my last question was on the Ind-AS impact.

**S. Ranganathan** In terms of Ind-AS preparedness, we have been doing parallel runs for the last several quarters now. And in terms of infrastructure building, we have almost all of us going through the process on Ind-AS and we are prepared for that. While we do that, there is also a regulatory requirement, the regulatory clarifications which are yet to come out that will help us do the impact analysis but at the same time we also understand that some of the NBFCs and ARCs have approached MCA and RBI and in all probability that should get deferred similar to that of the bank. In any case, even if it comes about in the first quarter, we are prepared for that. So, impact of that will be very negligible when it comes to the opening balance sheet.

**Moderator** Thank you. We take the next question from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

**Ashwin B** Just wanted to understand in terms of the credit book, I mean the average interest yield which you disclosed is about 16.3% for FY18. So, across various segments like mortgages, SME or wholesale and structured, how would the individual yields look like because, from what I can see, retail, mortgage and LAS book has been the one which has grown significantly and those I presume would be at a much lower yield. So, just wanted to understand how segment-wise the yields will look like currently on the book and also incrementally?

**Rashesh Shah** So, if we look at Slide #25 we have tried to give the break up between retail, corporate and distressed, we have not given the yield as such, but we have given the NIMs on that. So, on the retail book we are making NIMs of 5.2%, on corporate it is 9.4% and distress it is 9.1%. And we have different gearing and cost-to-income in each and we look at ROE. So, the retail book for this year made an ROE of 15.8%, corporate made 18.8% and distressed was about 20% ROE. And that cumulatively on a weighted average basis ended up at 18.1% ROE for the credit book as a whole.

**Ashwin B** So, between corporate and real estate on the wholesale side, the yields or the NIMs would be roughly similar?

**Rashesh Shah** I think real estate are usually 100 to 200 basis points higher.

**Ashwin B** And on the corporate side would you have any exposures to let us say any of the accounts which are under various restructuring dispensations of banks and consequently those accounts which might come under stress or you might have to recognize NPAs going forward? The other question was also like would you also have any exposure from this part of the book on to companies which you might have acquired in the ARC business where you acquired the security receipts. So, we have done any kind of lending to those companies?

**Rashesh Shah** See, we basically lend to promoters and business groups at a group level and we have collateral – we will have either separate collateral or identified assets which are clean, and which are not under stress and their cash flows are earmarked to us. So, a lot of groups may have some other companies, which are may be in the

NCLT or restructuring but the assets that we have are usually very healthy. So, as you know, all groups have a few companies which are very healthy and a few companies which are currently going through restructuring. So, we usually work with very good quality collateral with good quality promoters and this just ensures that our collateral, our servicing is all fairly ring-fenced and we have not had any issues on that. So, assuming there is a corporate group which has some companies under restructuring, but the same corporate group has an asset and office building which is unencumbered that is held by the group holding company. If they come to us and want to borrow against the office building or those earmarked assets, we would consider that because we are not exposed to the underlying stress of the operating companies which are under NCLT or restructuring. We are getting ring-fenced, unencumbered, clear-cut, no-issues kind of collateral. Of course, subject to the quality of the client being good because we also are very strict on client selection and over the years even if there was good quality collateral, good quality servicing capability but if we are not comfortable with the client – either their track record or their business approach – we would usually avoid those.

**Ashiwn B** And would there be any exposures you would have taken to companies where we had acquired like securities through the ARC, I mean would the corporate book have any such exposures?

**Rashesh Shah** No, the corporate book is outside of this. The corporate book has done some interim funding of companies in NCLT. As you know there are companies in NCLT, the company as per law is allowed to borrow money in something called interim financing. And interim financing is the senior most financing and gets paid first along with the fees of the RP. So, it is usually not a risky proposal, but you would structure it well enough and we have done a few of those about Rs.50-100 crore kind of deals in some of the NCLT cases where we have provided this super senior interim loans and they are all safe. They are getting serviced regularly and the repayment will come as per schedule. So, there are no issues on that and these are usually monitored by RP and the NCLT. So, these are very strongly adhered to. We are not giving the loan to the whole promoters. We are giving the loan to the resolution professional monitored company inside NCLT now. It is as per law. If you see the IBC Code, there is something call interim funding, in fact there is a large need for interim funding that is starting to grow for the companies which are in NCLT. We have actually developed expertise on that, so we have about 2-3 exposures on that not a large amount. Total amount may not be more than Rs. 250 crore, but we are also currently leaders in providing interim financing.

**Moderator** Thank you. We take the next question from the line of Nischint C from Kotak Securities. Please go ahead.

**Nischint C** Just going back to Slide #25. I am looking at the corporate part and just wondering if I just kind of try to do some very rough numbers, your expenses that are allotted to the corporate segment would be somewhere to close to around Rs. 900-odd crore. So, trying to understand as to what are these expenses?

**Rashesh Shah** No, our cost-to-income ratio is 31% of the net interest income of Rs. 1,462 crore.

**Nischint C** Yes, so actually if you look at it Rs. 1,462 crore even if I take a full tax rate your PBT should be around Rs. 500-odd crore. So, that is why I said that you are somewhere close to around Rs. 900-odd crore of expenses that are allotted here.

**Rashesh Shah** Yes, because you also have to take the credit cost. As I said earlier, if you look at our credit cost of about Rs. 600 crore, about two-thirds of that comes from the corporate side. So, when you look at the net interest income of Rs. 1,462 crore you should take out another Rs. 400--450 crore of credit cost and the provisioning that we have done, and I think another Rs. 400-odd crore of expense, which is the cost-to-income ratio and then we will come to the PBT. Yes, is it clear Nischint?

**Nischint C** Yes, just one point, how many exposures would you have in terms of number of loans in this segment?

**Rashesh Shah** We should have about a 60 on the corporate side and another 50-60 on the real estate side. So, total of about 110-120.

**Nischint C** I am moving to the Insurance business, I do not know if this was discussed earlier, but what has driven the growth in India Embedded Value (IEV) and are you sharing anything on the Value of New Business (Value of New Business (VNB)) margins?

**Rashesh Shah** This year we have not shared on the Value of New Business (VNB) margins, but we are planning to now start showing that going forward. But there are two Value of New Business (VNB) margins we calculate, one is pre-expense overruns and other is post-expense overrun. I do not have the exact number, but I remember from the board meeting that we had. So, we will be happy to send it across. But, we had about 32% Value of New Business (VNB) margin on a pre-expense basis and about ~18-20% post-expense basis. But we can send this across and the Indian Embedded Value I think we disclose is Rs. 1,635 crore now.

**Nischint C** The jump on a Y-o-Y basis is kind of fairly high, so that is why we were a little curious?

**Rashesh Shah** Actually, Indian Embedded Value (IEV) is high also because of the capital infusion happened in this year.

**Nischint C** Just 1 or 2 small questions on the SME side. How much business is unsecured?

**Rashesh Shah** Our total SME book, if you look at Slide #29, our total SME book is about Rs. 3,600 crore, I would say approximately about Rs. 1,500 is unsecured and the balance will be secured SME loans.

**Nischint C** And on the net-net basis your yield is 11% in this, this is it, including unsecured?

**Rashesh Shah** No. I think unsecured if you look at Slide #32, we have actually given both of that. On unsecured we make 20% and on these secured we make about 13%.

**Nischint C** And just finally on the Wealth side, of the total net new money that you mobilized which is around Rs. 15,000-odd crore, how much could have been on the Ultra HNI side and how much could have been on the mass affluent side?

**Rashesh Shah** I do not have that break up here with me. But we can try and calculate and give it to you, we do not split that as much.

**Moderator** We take the next question from the line of Vishal Modi from May Bank. Please go ahead.

**Vishal Modi** Just one question on the distressed equity the net increase is around Rs. 254 crore so just wanted to check, is this due to convergence of PCPL? On Slide #25, the Rs. 1,177 crore net worth of the distressed business its increased by around Rs. 254 crore from last year, so just wanted to check fresh capital infusion happened in this segment?

**Rashesh Shah** So if you see when we did the transaction equity a deal with CDPQ, we have sold 20% of the equity of ARC for realization of Rs. 500 crore. So they were investing Rs. 500 crore for buying 20% of the company. The company was valued at Rs. 2,500 crore on post- money basis. But out of that Rs. 500, the structure was that Rs. 300 crore will come at the time of investment and then they will invest another Rs. 65 crore every year subject to some basic parameters and we have been hitting all those parameters so they have put in another Rs. 65 crore in this year. So if you take the retained earnings as well as the Rs. 65 crore infusion from CDPQ, that will explain the increase in equity.

**Vishal Modi** But I think last year the net worth was Rs. 730 crore and we had around Rs. 192 crore of PAT this year. I do not know what would be the retained earning out of that. So still that is a little higher so just wanted to check?

**Rashesh Shah** We will just calculate and explain it to you.

**Vishal Modi** My question was that since we would be seeing lot of opportunities coming up in fresh asset acquisitions, so what kind of capital requirement would this business require and probably what is the shareholding now? It used to be 74% or 75%. So as the dilution or conversion of CCPS happens eventually we would have how much on the fully diluted basis?

**Rashesh Shah** The conversion of CCPS has not happened, but we are counting it as equity because it is a compulsory convertible preference share. We are seeing a lot of opportunity in distressed. The ARC business is structured as an NBFC itself and it is subject to the same norms as an NBFC from capital adequacy and all those point of view from RBI. So the current equity that we have of Rs. 1,177 crore is currently adequate and as far we just explained to you the increase in equity from Rs. 731 crore to Rs. 1,177 crore.

**S. Ranganathan** Vishal, as Rashesh talked about Rs. 731 crore was last year and now its Rs. 1,177 crore, so that is roughly an increase of Rs. 445 crore which is explained as under. The PAT for this year was about Rs. 200 crore. The CDPQ money that got converted was about Rs. 65 crore and out of the infusion that we had, Edelweiss in turn contributed to the capital of the ARC of about Rs. 180 crore.

**Rashesh Shah** We now own 60% until after all the conversions is over. From the beneficiary point of view we want 60% of the ARC, CDPQ owns another 20% and an old HNI investor owns the remaining 20% on that. So it is now going to be 60-20-20.

**Moderator** We take the next question from the line of Umang Shah from HSBC. Please go ahead.

**Umang Shah** I just have a couple of questions one was on the credit business. As Rashesh mentioned in his opening remarks that over the course of next few years we want to see this inching up to almost 50% of the overall book, but at the same time we intend to maintain or improve ROEs from 18% levels. Clearly, credit business has kind of lower ROEs compared to the other two business that we are into. So how do we intent to maintain 18% ROEs or rather improve that?

**Rashesh Shah** There are two fronts, as we said we have been currently providing a lot more aggressively for credit cost and all, we expect as we have already build up this cushion we will start stabilizing. Secondly, the cost-to-income ratio if you see Slide #25, the Retail cost-to-income ratio is 46% as we have scaled in that. A lot of our businesses are still much smaller and we are still opening branches and because we grow at this pace, the cost-to-income ratio also on a long-term basis for Retail to come down. Retail includes both SMEs and Housing. Housing, as you know, the cost-to-income ratio should be about 20% or so and for SME should be between 35-40%, so we expect this to stabilize at about 30%. So what we will improve will be the cost-to-income ratio, the credit cost that we incur as we get scale. This is what our expectation and hence we will be able to maintain the ROEs. Also the distressed credit, as you know, there is some amount of back-ended profit that comes when the actual recovery happens, so there is a carry element of that. So the ROE on the distressed should also improve in the next 3-4 years as the recovery starts getting stepped up. We have had good recoveries, but in the coming 3-4 years we expect some fairly good recoveries in the ARC book and that will also improve the ROE, I do not want to give any forward-looking statements, should improve by 200-300 basis points as per the current model we have on the ARC. As you know ARC, we earn a steady yield coming out fee and interest income that we get. When the actual recovery happens, you get some extra carry, you get the performance incentive that comes with that which is the extra ROE that you will make in the ARC. So I think going forward over the next 3 years Retail will go up, cost-to-income ratio will come down, credit cost should come down and the distressed ROE should improve.

**Umang Shah** My second question was on distressed assets in fact we have kind of remained stable at around Rs. 440 billion worth of assets sequentially what is your outlook in terms of acquisitions? What kind of book growth should we see here in terms of recoveries? You have already indicated right now that you expect recoveries to be strong over next one to two years, but on acquisition how should we see the book growing?

**Rashesh Shah** The ARC market or the distressed asset market in India last 5 years about Rs. 20,000 crore of cash has gone in, out of which our own has been about Rs. 6,300 crore from our book and another Rs. 500-600 crore from the funds that we manage. So altogether Rs. 7,000 crore have been invested by us. Overall, Rs. 20,000 crore has been invested as cash invested for distressed opportunities in India. Going forward, we think the market is good enough for Rs. 14,000-15,000 crore of new cash going in ever since the opportunities in interim funding, there are opportunities in the new ones, even the companies had come out of NCLT, they also need some structured funding, etc. So there are going to be a lot of opportunities where existing ARC which have an exposure can play around with that because you can continue our loan, you can do some new structures on that. So I think about Rs. 14,000-15,000 crore of cash investment opportunity for the industry as a whole in distressed assets. Our expectation is that can we do about Rs. 3000 crore a year out of which approximately Rs. 1,500 crore from our books and another Rs. 1,500 crore from the funds we manage, if we can get that out of the way I think that would be a good thing. And I do not think that is very hard to do. I think the pipeline we are seeing, the kind of distressed assets which are still there and I think the new circular and all will propel this market even further because earlier only when things became NPL, people had started working on that, but I think now from the default stage itself the banks will want to clean-up their books or the companies will also want to ensure that they do not forced into NCLT and they will need some restructuring capital ahead of the curve. So, I think we expect this to be growing about 20-25% a year in terms of the corpus we have which should be possible.

**Umang Shah** My last question was on from the capital allocation and consol ROE prospective. So FY18 we have ended at about 17% ROEs and we have seen on an incremental basis a significant part of capital being allocated to the Insurance business. Now clearly on the credit as well as on the distress assets business we are growing fairly strongly and actually quite profitably as well. Just want to understand that how do we see the trajectory for losses in Insurance over 2 to 3 year period so to that extent clearly we see some kind of plough back in terms of our return ratios and incrementally given that we are looking at the kind of capital requirement for the distressed business as well for the credit business, should the next capital raise be like about 18 months' down the line or you think the plough back would be strong enough to kind of sustain us for a slightly longer period of time.

**Rashesh Shah** First point we are not allocating more capital to insurance. If you see Slide #24 you might have seen the equity in insurance going up, but what you are seeing that is the pre-minority because our partners Tokio Marine infused capital in the Insurance business you might see that. So overall from Edelweiss we have only allocated Rs. 150 crore for the Life Insurance business and another Rs. 100-odd crore for the General Insurance business. So we do not expect to allocate more capital to Insurance business for the next year going forward. So almost all the capital will get allocated for the credit businesses – both Retail, wholesale and distress and all of that. I do not think any of the other businesses will consume any equity capital for the next 18 months at least. You are correct I think if we continue to grow at this pace, we might need equity raising about 18 months down the line and it is that point that we have to decide whether to raise capital at the holding company level or should we raise it in one of our subsidiaries in the credit side which is able to consume capital and grow. So, we will make up our mind, but I think for the next year at least we should be able to maintain a good growth rate and still have enough equity for that.

**Aman Shah** Perfect. Just the last point consol ROE you expect that to improve from 17% to about 18% to 20% over next two years, doable?

**Rashesh Shah** As you see in that Slide #17 we have already indicated that we want ROEs to improve and we want our consol ROE to be 18% and above and I think 18-19% is a consol ROE and about 22-24% is the future of the ROE target that we want to have internally.

**Moderator** We take the next question is line of Keyur Shah from Emkay Global. Please go ahead.

**Keyur Shah** If I can direct your attention towards Page #21 of the presentation. Your PAT for FY18 in the credit business it is Rs. 645 crore whereas on Page #24 it's a Rs. 731 crore, so there is roughly a difference of Rs. 86 crore.

**Rashesh Shah** What we are seeing here on #21 is after the minority interest because this is just breakup of our Rs. 890 crore PAT so this is after the minority interest because as we know our ARC business we have 40% equity which is held by others. But what you are seeing on Page #25 it is before the minority interest.

**Keyur Shah** Can you give me the bifurcation of your balance sheet size of your non-lending business?

**Rashesh Shah** We have given equity because outside of equity there is not much that is there in the other businesses, all is in the credit and its balance sheet ]management unit. So if you see the reported results we have given segment wise you might get it in that.

**Moderator** We take the next question from the line of Shweta Daptardar from Prabhudas Liladhar. Please go ahead.

**Shweta Daptardar** My question pertains to the distressed assets business, so what percentage of banks auction have you applied for as at the end of FY18?

**Rashesh Shah** Actually almost all the assets that we buy from banks are all through auctions only. Now auctions have now become the norms for the banks so almost everything that we have bought has been in the auctions only.

**Shweta Daptardar** So you cannot quantify as such because I remember you putting up a number in one of the analyst meets wherein I met up with you, so you had mentioned you have applied somewhere between 25-30.

**Rashesh Shah** I do not have that number. We do not track it because when the banks announce auctions also lot of them you do not participate because the assets are not good quality. I think we are now increasingly buying asset by asset, but each asset we were buying are also auctioned by the banks. So we would have bought about 12 or 13 accounts in the last quarter by just off the cuff. So those would be the accounts we would have added, but a lot of those could be incremental like we already have Essar Steel exposure, but let us say from Indian Overseas Bank we have bought Essar Steel. So we have already had some exposure to Essar Steel that we had bought early, we may have got another one bank in the last quarter that we bought from J&K Banks also the Essar Steel exposure. So those were I think we would have added about 12 or 13, we would have done 12, 13 purchases in the last quarter if I want to quantify those.

**Shweta Daptardar** Now that CDPQ is on board so is it that the asset acquisition value will go up going forward?

**Rashesh Shah** We will judge by more for cash. So earlier we were doing 85-15. We also offer to banks say if the price is right at 50-50 we also happen to buy 100% cash. So between us and CDPQ and the funds we manage we now have more than about Rs. 12,000 crore of cash available. So we are able to offer banks all kind of structures, either 85-15 or even all cash as long as the price is right. So I think our ability to show more cash to banks has gone up, you are right.

**Shweta Daptardar** Sir my second question pertains again to the asset quality of the credit business sir just one question there, what explains the collateral cover on corporate book that has declined year-on-year. Sir I am referring to Slide #31.

**Rashesh Shah** It varies on deal-to-deal so there is no real focused answer for this because on every deal we are somewhere between 1.75x to 2.5x, that's our normal range of collateral cover between 1.75x to 2.5x. So it just that the portfolio keeps on varying it goes from 2.1x-2.2x. The average portfolio cover has never gone under 2x, but between 2.1x-2.3x it can keep on varying as we keep on doing the newer transactions and it can keep on varying on that.

**Shweta Daptardar** Lastly, in the franchise business, so Wealth Management is the one which is actually stacking up your cost-to-income ratio which spiked up. Its commendable that it has come down from 85% to 65%-odd, but then is it because you are scaling up the relationship-based model which focuses more on mass affluent clients and relationship managers and where do you see this 67% kind of cost-to-income heading to going forward?

**Himanshu Kaji** It is a combination of things. Obviously, our focus is on the mass affluent where the relationship manager costs are lower, but on overall cost-to-income ratio, with extensive use of technology in this business what we have been able to do is actually bring the cost-to-income down and that is why the margins are low.

**Rashesh Shah** On the long-term basis, we expect cost-to-income for this business to be between 50 and 55%.

**Moderator** We take the next question from the line of Manish Shukla from Citigroup.

**Manish Shukla** First question is on the Retail business as you look to scale up your Retail to roughly 50% of your overall assets, how do you see your sources panning out because that will have cost implications?

**Rashesh Shah** As you have seen in Retail in the early days a lot of people will be relied more on open architecture structures, especially in mortgages, we started doing under-construction which has become direct-oriented and we also set up a direct team for that. So now I think, as we expect that our origination currently should be about 65-70 direct sales agents and the remaining should be from direct from Edelweiss cross-sell and other direct sales. Our long-term pattern is to be at about 50-50 where you are getting 50% from DSA and 50% from our own direct sources. On the SME we are already at about 50-50. We have already setup our direct sales team from the very beginning in the SME business and SME we would I think on a long-term basis go towards maybe about 65-35. 65 being direct and 35 being through open architecture sources. The cost on that ultimately ends up being the same, one is fixed and one is variable. What we have seen is that in the early days you see a lot more proposals through the open architecture so while you are finalizing a programs and all, it actually good to peak around with that. But as you go forward as you are very clear with the plant segment you have targeted and all, it is a lot more efficient to go through your direct sales channel. Your approval ratio of direct sales channels is much higher. So that adds up in the cost but when you see the cost overall, we do not see a big difference in cost, we just see that the direct channel gives you more control, will allow you to experiment more with your customer market segment and creating products for that and your customer experience is more under in your branch.

**Manish Shukla** But especially in the SME business as you move from DSA to direct, it is bound to see some kind of a portfolio churn because the customers segment which is used to DSA as a model who could probably end up losing it. So that on an expanding balance sheet I am not sure how that will have an impact on the business.

**Rashesh Shah** So we will not move away from DSA that is why I am saying some DSA will remain. We are just expanding in a lot of other cities where we open branches, we are using more and more direct also. So we will not give away because ultimately we now have about 100 branches a year ago we had only 30 branches we will add another 100 branches in the next year or 18 months. So as we are going into newer cities, in those cities we are doing more direct than using the direct sales agents.

**Manish Shukla** Just to be sure this we are talking of only the existing product lines. We are not thinking of any adding new product lines within the Retail segments.

**Rashesh Shah** We are currently not contemplating adding anymore because as you can see each of these we are still fairly small. If you look at our SME, the secured book is about Rs. 2,000 crore, SME unsecured is only Rs. 1,500 crore, even our home loan mortgage books and all. So we are still fairly small and relatively subscale. So I think the next couple of years the effort will be to just get scale into all those businesses because we made the investment, we have opened branches, we created product program, and we have put the platform in place, now we just want to scale up.

**Manish Shukla** On Retail what would be the rough split between home loans and LAP?

**Rashesh Shah** Home loans is much smaller. So out of the total Retail book of Rs. 3,600 crore, I would say about Rs.1,200 crore or one-third will be home loan and two-third will be LAP.

**Manish Shukla** My next question is on distressed business most of us would want to believe that we are in the last leg of the NPA recognition recycle and probably most of it should be done over the next 6 to 12 months. In that case if you look towards fiscal '20, what do you think will drive the distressed asset book. I am assuming that the lending part would be taken care of the corporate credit book. So from a distressed assets perspective and from a growth perspective that you said about 20%-odd I am just wondering what will drive that kind of a growth.

**Rashesh Shah** So couple of things, I think the first is the banks still have to sell for the next couple of years because they still have a lot of assets which are NPA or which are stressed even now and I do not think that we will slow down for the next few years. The other thing as I said is the cash component might go up if the pricing is right and we are starting to see that. So since our focus is on how much cash can be deployed and our whole approach is how much can we deploy which can earn say (+18%) kind of return. So earlier let us say you are buying a Rs. 1,000 crore loan in an 85-15 structure probably putting Rs. 150 crore to work. Now the same Rs. 1,000 crore if you are buying it at Rs. 700 crore but on an all cash deal you are actually putting Rs. 700 crore to work. So the amount of capital that you are able to put is much higher so I think the cash component will go up. As I said that there are things are interim funding and other big opportunities that are opening up and we do not see a problem for the next 3-4 years given the pipeline that is there in the banks even now and now even NBFC's are opening. A lot of the NBFC's in infra space and all are also now coming forward and starting to sell so even the NBFC market is starting to become fairly attractive.

**Moderator** We take the next question from the line of Anusha Raheja from LKP Securities.

**Anusha Raheja** Any rough estimate how much ROE you would be making in your ARC subsidiary in FY19 and FY20 and on enhanced equity based?

**Rashesh Shah** So if you see Slide #25 we have given the distressed ROE which is about 20%.

**Anusha Raheja** That is for FY18 right?

**Rashesh Shah** Yes.

**Anusha Raheja** What I understand is nearly more than 50% of your book on the ARC is more than 5 years old now, so I guess those assets little more than Rs. 20,000-odd crore should start contributing over the next 2 to 3 years meaningfully so has that happened?

**Rashesh Shah** It is happening. I think '19 onwards a lot of those assets we will look at recoveries. So if you see our ARC Slide, we have given a slide on recoveries out there if you see Slide #36 we had recoveries of Rs. 2,500 crore this year. We are expecting about Rs. 8,000-9,000 crore of recoveries in current year also. Of course, the recoveries from AUM that we infused in the banks also so we do not have any forward-looking ROE target. But as I said earlier in the ARC business when you recover, there is always some extra fees you make because of carry and incentive that will come through and start flowing through in your ROE as you go forward.

**Anusha Raheja** What I understand is if any recoveries are more than 50% then you might get a sizable benefit out of it, if it is less than 50% I think that would be sufficient just to take care of our annual charges or the maintenance charges and everything is that so?

**Rashesh Shah** You usually get an extra pop or a carry when you recover higher than what you have bought it. So you bought something at 40 cents to a dollar and when you recover more than 40 cents you get a carry on that. So the general formula is if you buy something at 40 and whatever you recover above 40 about 20% of that comes to you as a carry. So let us say if you recover 45 then you will get extra 1 of that.so that is the usual rule of company.

**Anusha Raheja** Most of the assets purchased by you is around at 50% discount I guess.

**Rashesh Shah** Our average purchase stands at about 42 cents to a dollar but again this is very specific. There are assets we have bought at 80 cents to a dollar, there are assets we have about 20 cents to a dollar. Our average price has been 42-43 cents per dollar.

**Anusha Raheja** So it will be difficult to put up just some numbers there on the ROE side.

**Rashesh Shah** It will not be difficult, it is that we do not want to make any forward-looking statements on that because recoveries can come in this year, in next year and which assets are getting recovered and at what price so we just do not want to make any forward-looking statement on that. As you said as and when recoveries happen there is usually an upside at the ARC basis.

**Anusha Raheja** Because so far only 6% of the assets have shown the recovery as per the calculations so meaningfully they are yet to come?

**Rashesh Shah** If you see Slide #36 our recoveries have been close to Rs. 4,000 crore in the last 3 years and in this Rs. 4,000 crore over the total AUM that we had is over Rs. 40,000 crore on an average. So we have already recovered 10% and as I said we expect about Rs. 8,000-9,000 crore, another 20% recovery this year and maybe hopefully 30% after that. I think we have already recovered 10% of the AUM in the last 3 years.

**Anusha Raheja** On the credit book side some qualitative thoughts from the asset quality of your wholesale mortgage book because in the backdrop how you are seeing things post-RERA and there has been relative drop in the prices as well. So, any stress building up there or how you are seeing the things there?

**Rashesh Shah** Actually we are not seeing stress on the real estate side. In fact, commercial was always doing well, but in the last 8 months housing has been doing pretty well. So in spite of the headlines that come in the newspaper, we have seen a fairly good sales. So there are 4 categories, there is affordable category which is below Rs. 25 lakhs we have a small book of that. There is very small economic category which is Rs. 25 lakh to Rs. 1 crore and lot of our project we have funded are in that category. In that category we are seeing good sales the third category is what we call is premium category which is between Rs. 1 crore to Rs. 3 crore and Rs. 3 crore and above is luxury category. Luxury market is still slow, we do not have a lot of exposure to that, but the economy and the premium segment has been doing well. In fact, last quarter was a fairly good quarter from a sales point of view for a lot of real estate developers across India.

**Anusha Raheja** One last question on this ARC subsidiary in the longer term even ARC will continue to remain as a subsidiary despite CDPQ coming as your partner, is that the right assessment?

**Rashesh Shah** Yes.

**Moderator** Well that seems to be the last question. I now hand the floor over to the management for their closing comments.

**Ramya Rajagopalan** Thank you all very much for your time and as always, we are very encouraged by the interest in Edelweiss and we hope that the extra 30 minutes on the call help us address all your questions. As always, if there are any residual questions, please feel free to contact either me or my colleagues, Salil or Samriddhi, and we will do our best to help with your additional information needs. Once again thank you very much for joining us on the call today.

**Moderator** Ladies and Gentlemen on behalf of Edelweiss Financial Services Limited that concludes this conference. Thank you for joining us you may disconnect your lines now. Thank you.