Edelweiss
Ideas create, values protect

Chairman's Letter 2016

Dear All,

Edelweiss began operations 20 years ago with modest roots and an aspiration to build a solid and robust business based on sustainable and long-lasting values and culture. Initially we provided investment banking and portfolio advisory services. Today, our aspiration is to be a respected, world-class, diversified financial services firm with a portfolio of high-quality, growth businesses. This has meant that during this 20-year journey, our focus has been to build a resilient platform that enabled a unique business model. This unique model has resulted in the creation of a diversified organisation that is akin to a bank but with several advantages – it is multi-platform, has a healthy mix of wholesale and retail businesses, is more scalable and stable in a volatile market environment, leading to reduced costs and improved cross-sales. This diversified model has helped Edelweiss grow faster versus peers even in tepid market conditions.

This letter provides the perfect opportunity to share our journey with you and put our successes as well as our failures in perspective. The learning along the way, coupled with Edelweiss' guiding principles, has not only helped us constantly evolve and improve, it has also shaped the company's growth path and helped it stay true to the Edelweiss vision. I hope, every year henceforth, to share my thoughts with you on the organisation's evolution and approach.

SOME MUSINGS ABOUT OUR EVOLUTION

The last 20 years have been an exciting journey for Edelweiss — we explored business opportunities, devised strategies to counter the evolving challenges and provoked each other to set new benchmarks for ourselves as well as the financial services industry. In these years, we have faced teething troubles, taken baby steps onto the path of our growth, experienced an exhilarating period of hyper-growth, followed by a phase of consolidation that was as enlightening as it was painful; and finally the current phase of balanced growth which has translated into the rewards of having braved the previous consolidation phase sensibly. The outcome of each of these phases has been equally important, equally challenging and equally rewarding.

Birth Pangs: 1996 – 2000

Amount in ₹ million	1996	2000	CAGR
Revenues	0.2	85	373%
Profit After Tax	0.03	39	514%
# Employees	4	12	32%
Book Value per Share*	0.1	0.4	50%
Diluted Earnings per Share*	0.0	0.2	366%

*Based on internal estimates

In 1996, as we set about putting together a fledgling organisation, we talked to several industry stalwarts seeking their advice. One suggestion we received, that has been the foundation of Edelweiss since inception, was to build a great organisation and not just a good business. To achieve this, we developed a set of Guiding Principles that defined what we stand for, what our core values and beliefs are, and they have determined our method of doing business.

GUIDING PRINCIPLES

1. We will be a Thinking Organisation.
2. We will be Fair to our clients, our employees and all stakeholders.
3. We will take care of our People.
4. We will operate as a Partnership, internally and externally.
5. We will focus on the Long-Term.
6. We will focus on Growth for our clients, employees and shareholders.
7. Our Reputation and Image is more important than any financial reward.
8. We will Obey and Comply with the rules of the land.
9. We will respect Risk.
10. We will endeavour to grow, protect and use our Financial Capital wisely.

Over the years, we have been gradually moving from a product-centric company to a customer-centric company. We felt that while in spirit and action, we have been successful in initiating the change at the ground level; we now believe that our client-focus is something that should be reflected in our guiding principles as well. We have, therefore, added three more principles around customer centricity, to our original 10. These are:

- We are defined by the Experience of our customers have with us
- We will Listen to our customers
- We recognise that we need to satisfy the Needs, sometimes conflicting, of all stakeholders

Over the last 20 years, our guiding principles have undergone changes that have only helped them become crisper and clearer. They have guided us not only in our behaviour and approach to business but have also helped us reach for goals beyond profits and market capitalisation to building a lasting institution with firm foundations. They have helped clarify what we truly stand for: Ideas Create, Values Protect.

These foundations have also helped build a culture of ownership, a common purpose and shared values within Edelweiss. We had started with a capital of ₹10 million, which was enough for us to obtain what was then a merchant banking license that allowed us to do everything but manage IPOs. The license amount, however, changed to ₹50 million just before we incorporated the company! It was our first exposure to regulatory upheaval and the first of the setbacks that we experienced in our journey. But we believed in finding opportunity amidst adversity and treating every setback as a hidden opportunity. So we started helping start-up companies raise funds via the non-IPO route, tapping Venture Capital (VC) and Private Equity funds (PE), which was a rarity in India at that time.

10 million rupees was what we thought we needed to cover our costs and a little over, the value of which we realised all too early as we had many advisory mandates but no closures. Markets had tanked, the Asian crisis soon followed, but by 1998, we finally had our first closure. Thereafter, our first few closures, mostly in technology (and one Mergers And Acquisitions (M&A) closure!) resulted in us being greatly sought after. Our small office of 550 sq. ft. was soon far from sufficient and our tiny reception had to be turned into a conference room! This part of our journey, in hindsight, almost like the pre-warm-up part in marathon training, was exhilarating, chaotic and unstructured. More importantly, it was about a very small team of people and their ideas and creating a business that we did not have much experience in.

Baby Steps: 2000 – 2004

Amount in ₹ million	2000	2004	CAGR
Revenues	85	281	35%
Profit After Tax	39	78	19%
# Employees	12	95	68%
Book Value per Share*	0.4	0.9	21%
Diluted Earnings per Share*	0.2	0.2	10%

*Based on internal estimates

In 2000, as we had our first blockbuster year of financial performance, we had begun to experience some disquiet about the Internet boom. Valuations had become unreal and business plans had begun to be created with the sole purpose of fundraising. We had also begun to feel the need for some stability in earnings and to go back to looking seriously at “adjacent markets” (I have always considered Peter Drucker to be among the foremost management thinkers). We started considering a foray into the Broking business. There was some debate as to whether we were contaminating a high-quality business with a more “grubby” business – the broking industry had seen tremendous regulatory overhaul and significant industry-level changes since SEBI was established in 1992. However, we had done our homework and were confident in our ability to make the business work. In the same year, we also raised our first round of outside capital. We could now afford a Category I merchant banking license. And, we were pre-occupied with two areas – adding people as well as capital – and seriously evaluating making a broking acquisition.

As it happened, the markets and the economy sank and business slowed down in 2001. This was accompanied by the bursting of the Internet bubble. The broking business that we had acquired (Rooshnil Securities) also saw its revenues halving. But that didn’t deter us from setting targets for ourselves which pushed us to take these challenges as a part and parcel of the business cycle. I remember, in 2002, at the year-end strategy exercise for the broking business, the team set their five-year gross revenue target at ₹30-40 million; I insisted on ₹100 million. We were doing ₹5 million in revenues at the time and we decided to invest ₹5 million into the business. Everybody thought I was being unreasonable. In 2008, we did ₹2.4 billion in the institutional broking business!

We stood by our rationale - “One should never waste a crisis”. Bad times are actually great times to build a market. During a downturn, not only is it easier to find quality talent, investing during a down cycle also ensures that when the market cycle turns, we are ready with a tested platform, system and processes to benefit from the tailwinds. We set about making the optimum use of this downturn – we had made some great hires (we grew from 10 people in March 2000 to nearly 100 in March 2004); we had sufficient capital and we had a new office measuring 5,000 sq. ft.

Of these, the most important of our resources has been our human capital, where we have been lucky to have hired people who have defined Edelweiss as it stands today. Rujan Panjwani joined us in 2000 to run our Treasury business and today, runs not only our Agri-financing and Commodities business but also oversees several key enterprise functions such as Global Risk and Compliance, as well as HR. He also serves on our Board. Deepak Mittal has evolved from being part of our Investment Banking team in 2000 to running Treasury with Rujan, then briefly serving as our Chief Financial Officer (CFO) during our IPO and after developing our thinking on Life Insurance, serves as Chief Executive Officer (CEO) of Edelweiss Tokio Life. Nitin Jain joined us in 2004 in our Treasury team building it up to scale, then surprised us by offering to run our Global Wealth Management business and turning it around successfully. He now is also Co-Head of the Global Asset Management business with Venkat Ramaswamy. And I have several more examples to share.

During this phase, we also started exploring new, innovative business lines, which were in their nascent stages in the country. We dabbled in options and futures, the new “in-thing” and also began to invest in our research desk. By the end of 2003, we were convinced that recovery was around the corner.

Joyful Hypergrowth: 2004 – 2008

Amount in ₹ million	2004	2008	CAGR
Revenues	281	10,888	149%
Profit After Tax	78	2,732	143%
# Employees	95	1,621	103%
Book Value per Share	0.9	24.7	128%
Diluted Earnings per Share	0.2	4.0	103%

By 2006, we had witnessed two significant rounds of capital raises. The focus on people, capital and ideas continued and the pace of expansion was exhilarating. The Indian capital markets were doing really well and we were well-placed to gain significantly from this growth. That is why we like to call this phase of our evolution as a phase of “Joyful Hypergrowth”. We were expanding rapidly, especially in terms of human capital. In fact, we kept running out of office space all the time! So much so that we graduated from one office in Nariman Point with 200 people to 12 offices with 1,800 people in four years!

This was also a phase of serious introspection within the organisation. We were fatigued and saturated by 2005 and were unclear about what our goals and aspirations now should be. We had set targets for ourselves and once we achieved those, we were plagued by the question — What next? We then conceived the 10x10 strategy, wherein we aimed to grow 10x times in 10 years. This introspection exercise made us realise that the manner in which we frame our future will determine our actions and growth. Hereon, our objective was to stretch, soar and test our limits and see where we land.

However, our high dependence on the capital markets was becoming apparent at this point of time. We had once said then that we would never handle credit and that we didn’t understand it. But, the overt dependence on capital markets and the gradual convergence of capital and credit markets, over the years, made us realise the importance of business diversification. We began to actually explore evaluating the credit business, which culminated in setting up a leadership team in 2007. Realising the need for capital to drive this credit business, we strengthened our investor base by raising more capital. An IPO was a natural follow-up to this and we went public in 2007.

Painful Consolidation: 2008 – 2012

Amount in ₹ million	2008	2012	CAGR
Revenues	10,888	16,707	11%
Profit After Tax	2,732	1,277	-17%
# Employees	1,621	3,108	18%
Book Value per Share	24.7	34.8	9%
Diluted Earnings per Share	4.0	1.7	-20%

From 2008 onwards the dynamics were very different for Edelweiss due to a variety of factors:

- We were now a listed company
- The success of the good times resulted in carelessness and sloppiness - for example, we started a Private Client Group, as part of our Broking business, that underwent several

"version" changes of people and strategy only because we did not define what we stood for in that business

- The reality of the global financial crisis had hit home hard. Our credit business was still nascent, our foray into retail capital markets was all too-new and our dependence on wholesale capital markets all too apparent
- Edelweiss' back-end was inadequate and its pace of expansion could not match the pace with which the businesses were expanding. We underestimated the importance of enterprise functions and suffered as a consequence

While this stage of our journey was the most demanding and punishing phase of our journey, we truly laid the foundation of growth that was to follow. We also learnt one very important lesson — you are never as good as people make it out to be in the good days and you are never as bad as people make it out to be in the bad days — the reality is somewhere in between. All our significant businesses today were seeded and nurtured then and right through 2012 and beyond. In addition to Credit, we became the 24th life insurance company in a joint venture with Tokio Marine. We launched our first few funds – a real estate and a special situations fund, commencing our foray into Asset Management. On the capital markets side, we began a Global Wealth practice. We also invested heavily in the technology and enterprise functions. We now had our own Business Solutions Group to provide cutting-edge technology solutions to our businesses; we built a strong risk and governance team; we formally set up our philanthropic foundation, EdelGive, in 2008, to channelise both financial and non-financial support (in terms of the time provided by Edelweiss employees) to selected non-profits. The challenges faced in this period helped us realise our core competence, as well as understand the importance of diversification. It was a period of painful consolidation, which has paid rich dividends for us.

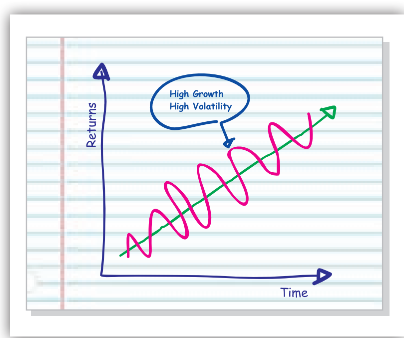
Mature and Balanced Growth: 2012 – 2016

Amount in ₹ million	2012	2016	CAGR
Revenues	16,707	53,157	34%
Profit After Tax	1,277	4,144	34%
# Employees	3,108	6,227	19%
Book Value per Share	34.8	45.1	7%
Diluted Earnings per Share	1.7	4.9	31%

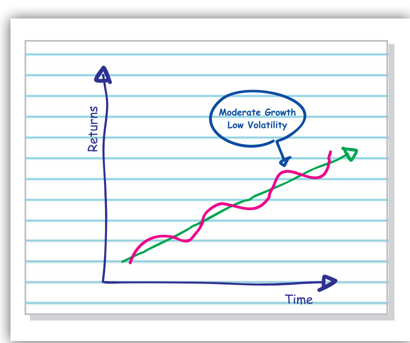
The synergistic diversification that we followed in this most recent phase has helped us to even out our earnings volatility. By broad-basing the business model, not only have we reduced our dependence on the capital markets, we have also created a strong and sustainable revenue line going forward, one which is relatively more stable and secure.

Between 2012 and 2016, we have focused on true diversification, horizontally and vertically, with the aim of achieving what we would like to call balanced growth. We have strengthened our businesses, simultaneously working to de-risk them to enhance sustainability. At the same time, we have decentralised our businesses whilst creating strong governance and risk management structures both at the Edelweiss level and at the business group level. Capital allocation (including liquidity and balance sheet management), global risk (including brand and reputation), key people and leadership and strong review mechanisms are areas on which I focus all my time. Our businesses are now freer to focus on growth and new ideas, HR and customer value addition.

We think that the focused consolidation efforts made by us in the previous phase from 2008-2012 have borne tangible results in this period with profit having largely witnessed a steady uptick. Particularly, the focus on seeding new businesses and gradually scaling up the mature ones has helped us create a stream of businesses that are ready to take advantage of the India growth story that we believe is going to unfold over the coming decade.

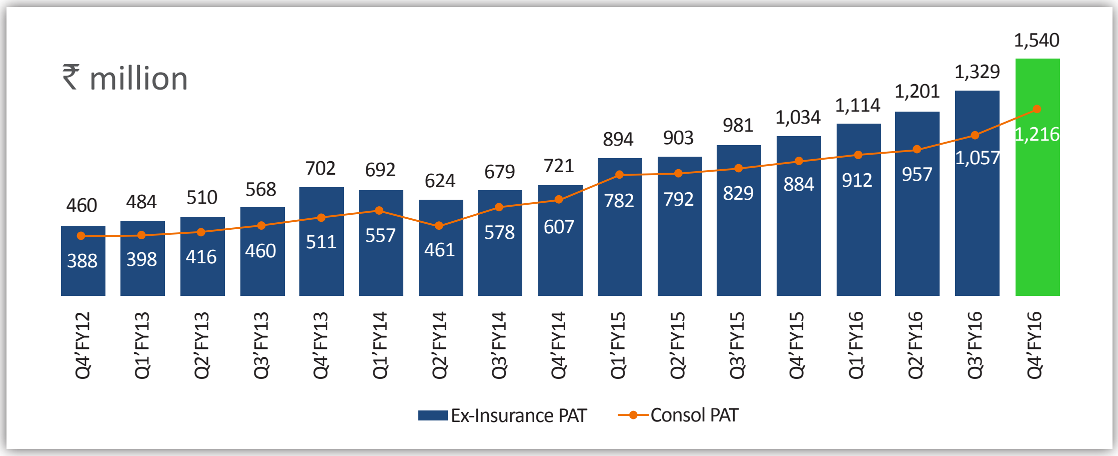


● *Old Edelweiss*



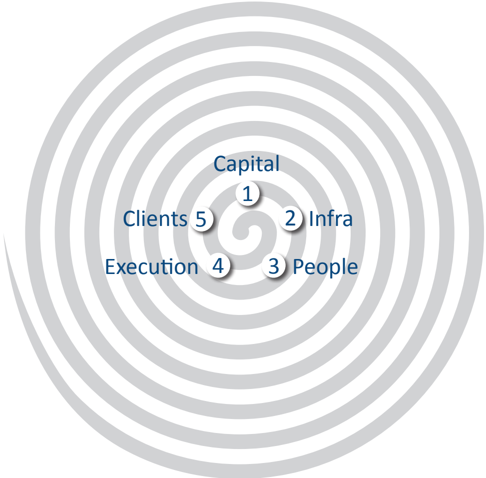
● *New Edelweiss*

PROFIT AFTER TAX



Our growth whirlpool has been a benchmark in establishing all our businesses. Each attribute creates a base for the next attribute, which helps us to finally create a growing and sustainable client base.

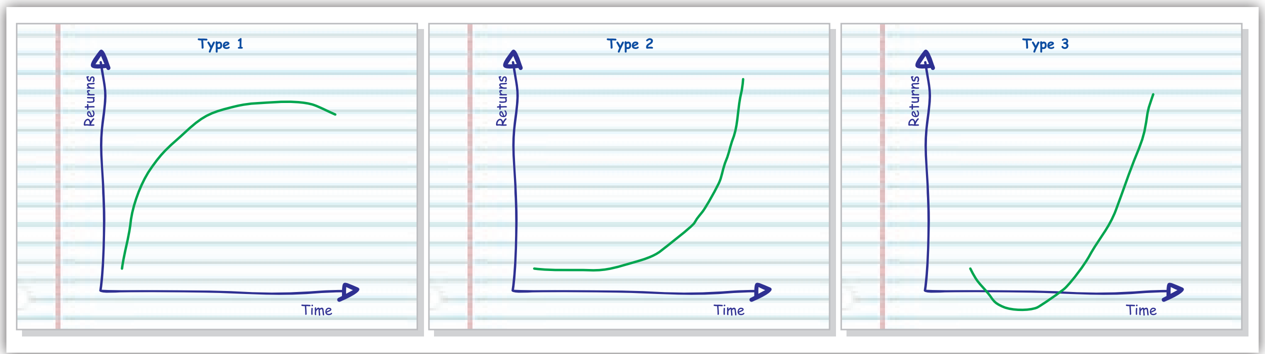
Edelweiss Growth Whirlpool



We also have a consistent philosophy that helps us decide the kind of businesses we want to be in. The graphs below espouse our philosophy to some extent.

While businesses like the first one (Type 1) are easy to understand and sell, they are usually rare. The businesses of the second kind (Type 2) are the ones we like! This is reflected in most of our businesses. While these might require financial capital as well as emotional capital, we feel that they provide long-term gains that justify the initial travails. The third kind (Type 3) usually require deep pockets and a long-term gestation period. This is the strategy that we are following in our insurance business.

So in these 20 years, have we made mis-steps? Our counter-cyclical approach and willingness to experiment has ensured we undertake many experiments but always by asking – is it worth it? And can we afford it? We take what, by our definition are "calculated risks". We will make small mistakes all the time. In following a counter-cyclical approach to business, we have invested in new businesses at a time that has appeared foolish to the rest of the world. We constantly look



for large opportunity spaces with high growth rates. Such businesses provide tailwinds and operating in them feels akin to running downhill in a marathon. We have the largest Asset Reconstruction Company (ARC) in the country today but are also investing in setting up a new business that will focus on devising and executing operational and structural turnaround strategies for portfolio companies in the ARC. Within Credit, in addition to Structured Collateralised Credit and Mortgages, we have developed a strong practice around Fixed Income, Real Estate Advisory and SME and Agri-financing. We have made strategic acquisitions in JP Morgan India mutual funds' schemes that will add more than ₹55 billion to our AUM and Edelweiss Multi-strategy Fund that has leveraged our platform to provide alternative investment strategies to our wealth customers. We have made significant investments in technology and digitisation – the latest being a strategic partnership with IBM to build efficiency and analytics in our product offerings. We have also made significant investment in managing risk through people and processes. This, I believe, has put us in a good position to take advantage of the growth opportunities we foresee as being available to us in the coming years.

(₹ billion)	End of Period (EoP) Networth	Profit After Tax	RoE%*
Credit Business	23	3	17.0%
Non-Credit	11	2	22.3%
Total Ex-Insurance	34	5	18.6%
Insurance	9	-1	-
Total	44	4	12.9%

Numbers are Management Estimates
*On Average Equity; adjusted for intangibles and minority interest; PAT of Insurance relates to Edelweiss share in losses

THE YEAR AT EDELWEISS

FY16 saw steady, all-round growth for Edelweiss despite the general economic slowdown in the country. We increased market share across businesses, led by strong credit business growth and expanded our footprint across geographies, particularly in the retail segment, which ensured another robust performance this year. Our total revenues were ₹53 billion, up 36% over FY15 and PAT was up 26% to ₹4 billion. Our return on tangible equity ex-insurance for FY16 was 18.6%, up from 15.6% in FY15 with consolidated RoE improving to 12.9%.

We believe the right approach to measure our performance is to look at overall returns on an ex-insurance basis. Realistically, this is a measure of our 'normal' performance because we have always maintained that the life insurance business has a relatively longer gestation period and we are, currently, in the investment phase. The return on these investments will start giving results over a period of time. Until then, it makes sense to consider our ex-insurance returns as a more reliable proxy for our 'normal returns'.

Edelweiss has maintained consistent improvement in quarterly profits since FY12 with almost 18 straight quarters of growth coupled with efficiency and productivity. Today, we are one of the top five diversified financial services firms in India with a Balance Sheet size of over ₹320 billion, AUM of ₹320 billion and Assets under Advice of ₹295 billion under our Global Wealth Management business, with over 6,227 employees spread across 237 offices and 4,500 client touch points.

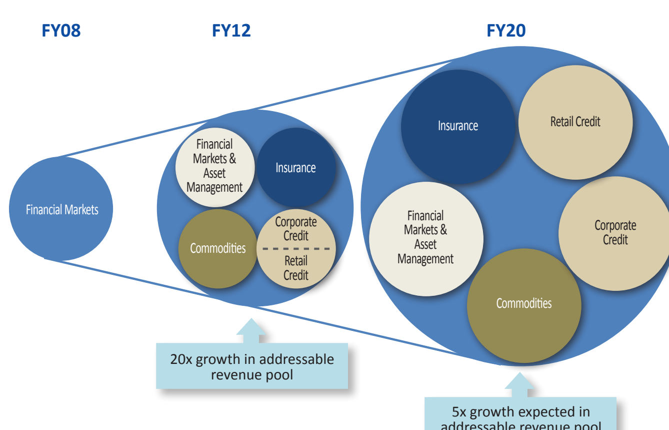
OUR BUSINESSES

Our businesses are a reflection of how we feel the India story is going to pan out over the coming decade. To truly understand our business strategy and philosophy, we first need to understand that our outlook on the "India of the coming decade" stems from a quiet confidence in the India growth story and our belief that households will drive this growth.

With a significant presence in almost all the important segments of the financial services and leadership positions in many – each of our businesses represents future growth and an opportunity to sustain multiple client relationships across adjacent synergistic business verticals. We build enduring relationships with our clients by offering solutions that are customised to their needs and are supported by smart execution.

On a broad level, we classify our businesses into the following three groups:

- Credit
- Non-credit
- Insurance



Source: Edelweiss Research

While the credit businesses have provided us the steady growth and scalability, our non-credit businesses drive the extra profitability that helps us stay ahead of competition. Many of these businesses also form a symbiotic complement to our credit businesses. We believe that a healthy mix of credit and non-credit businesses is the model for the future.

CREDIT

Our hypothesis about the strong India growth story provides us with a significant opportunity to exploit the potential growth in credit businesses in India. Our approach is to find credit verticals wherein we can build competitive advantage, ideally in a fast growing niche and which can give us a book size of ₹50-100 billion over four to five years. If we can enter into one new vertical every two to three years and build 8-10 such verticals over a period of time, we can have a credit book of ₹1,000 billon. This strategy is driven by the blurring boundaries between banks and non-banks, a trend which is only going to accelerate over the next 10 years.

Our existing credit business is spread across wholesale and retail segments with several verticals:

Credit Segment	Book Size (Mar 31, 2016)	
	₹ billion	USD million
Structured Collateralised Credit	68	1,019
Real Estate Finance	53	807
Distressed Assets Credit	19	286
Mortgages	26	399
SME & Agri Financing	14	217
LAS and Others	19	293
Total	**200**	**3,021**

Since we aim to build a multi-line business akin to a bank, we offer solutions that are customised to clients' specific needs across the corporate, SME and retail spectrum. We first envisaged launching the credit business in 2005 with an aim to build a good mix of credit and non-credit businesses. But first we needed capital to do that. So we went ahead and raised funds from Greater Pacific Capital. We launched the credit business in 2007 and 9 years hence, from zero credit assets, our credit book today stands at more than USD 3 billion. Despite the strong growth, our robust risk-management processes have ensured that we continue to maintain the asset quality of the overall credit book with our Gross Non-performing Loans at 1.4%.

Under Structured Collateralised Credit and Distressed Assets Credit, we offer bespoke/customised solutions to the corporate and the wholesale segments. This includes products spanning promoter financing as well as trade financing. Our real estate business caters to a wide range of residential developers. We also have a real estate fund and a real estate consulting practice under this business. The wholesale credit business, launched in 2007, today has a credit book of around ₹140 billion.

We started the Retail Credit operations in 2011. Today it comprises of mortgages, SME, Agri Financing, Loans against Shares and Rural Finance and has a credit book size of around ₹60 billion with operations across 45 cities and over 3,400 villages with a client base of 304,000. The mortgages business caters to retail home buyers and business owners. As part of this business, we provide a wide-variety of products including housing finance, small ticket housing loans, loan against property and real estate finance.

We consider SME & Agri Financing as one of the biggest untapped avenues in the India credit market. Agri Financing alone is a USD 10 billion unorganised market that is highly scalable and unoccupied by institutional players and we see this new line of business, as an integral part of our strategy, to occupy a larger part of the agri value chain spanning from the farmer to the dinner table. Our other offerings on the retail side include products like loan against security and micro finance solutions to clients in tier III/IV cities and rural areas.

NON-CREDIT

Non-Credit	FY2015	FY2016
Broking *Average Daily Volume (₹ billion)*	50	52
IB & Advisory *Number of deals*	114	100
Wealth Management *Assets under Advice (₹ billion)*	178	295
Asset Management *Assets under Management (₹ billion)*	230	321
Agri Services *No. of warehouses*	122	265

Our non-credit business comprises primarily of wealth management, asset management and capital markets. Our focus remains to actively drive the asset management and the wealth management businesses. These businesses, in particular, would benefit substantially from the huge wealth creation in our country in the coming decade.

Our wealth management business offers retail and High Net Worth Individuals (HNIs) broking – both online and offline, wealth management advisory services to HNI clients and third-party financial products distribution, among others. We launched our wealth management business in 2008. However, it took us two years to realise that there is a huge difference between wealth management and product-selling. We had the eternal dilemma of deciding whether we were doctors or chemists. We found that there was no easy answer to this. But we have realised over time that we should see ourselves more as a custodian of investors' financial health and hence, we are technically doctors. We also re-engineered our products to make them more customer-oriented and need-based.

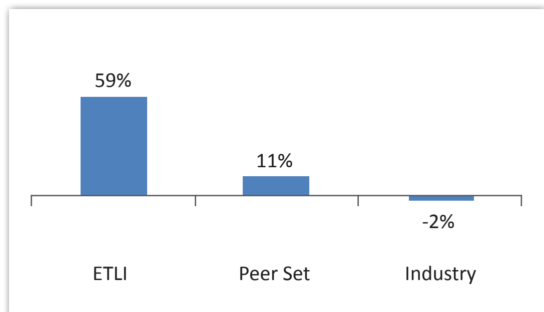
Our Asset Management business comprises four verticals – Credit Alternatives, Multi-Strategy Funds, Retail Asset Management and Asset Reconstruction. The Asset Management business has both equity focus across Mutual Fund, Portfolio Management Services (PMS) and Alternative Investment Funds (AIF) as well as a credit focus which includes Asset Reconstruction and Special Opportunities fund. The Total Assets under Management are more than ₹320 billion. Our Mutual Fund business has grown this year and along with the acquisition of the India schemes of JP Morgan Asset Management Company (subject to regulatory approval) is likely to scale up its AUM significantly.

We launched our distressed assets business in 2008 and obtained an ARC license from the RBI in 2009. The lack of sufficient business opportunities meant that by the end of 2012, the distressed assets business was itself in distress! However, we had a firm belief in our convictions and persisted with the business, trying to make it work via a combination of agility and adaptability. Our distressed assets business is today the leading ARC in the country and is continuing to scale up at a sturdy pace. It has also already created a solid track record of resolution of assets of ₹120 billion by the end of FY16 through multiple resolution strategies with revival and business turnaround being the foremost strategy.

Under the capital markets business, we offer the entire spectrum of corporate advisory services including fixed income advisory, M&A, equity capital markets and private equity syndication. We also pride ourselves in being leaders in the debt capital markets. We are also one of the largest institutional broking houses in India with a market share of around 4.5% by revenue. This has been built on the back of a strong research desk that has extensive coverage, providing comprehensive information on a multitude of sectors.

LIFE INSURANCE

With the rapidly increasing disposable income in the hands of the Indian consumer and the extremely low penetration of the life insurance market, we felt that the life insurance business provided a wonderful opportunity to expand our addressable retail markets. Edelweiss Tokio Life Insurance was, thus, launched in partnership with Tokio Marine of Japan in 2011 with the highest ever startup capital for a life insurance company, of ₹5.5 billion. Tokio Marine has infused ₹5.27 billion in FY16 for an additional 23% stake, taking its total holding in the JV to 49% with



● *Individual APE CAGR growth since FY13*

Edelweiss holding the remaining 51%. Edelweiss Tokio Life has been recognised as among the fastest growing life insurance companies in India in the last three years with rapid growth in individual APEs, far outstripping the industry growth. Our Life Insurance business has been growing rapidly, easily outstripping the industry growth rates.

Being new to this business, our learning has been substantially experiential, whilst at the same time absorbing new ones from the experiences of our partner Tokio Marine. We have tried to amalgamate the world-class insurance practices of Tokio Marine and adjusted them to suit our Indian sensibilities. This cannot be better explained than by Vijaypath, meaning path to victory, a unique prioritised customer need based solution. We developed a customer-centric Net Promoter Score (NPS)-based approach where the focus was on identifying the needs of the customer across different buckets. Only after this was achieved did we determine the kind of products that the customer should be offered. Not only did this help us develop long-lasting customer relationships, it also helped us chart out a clear strategy path to building a sustainable, long-term customer-friendly business. This has been accentuated by our rapid expansion across the country, covering more than 60 cities in India. Our funds in the insurance business have also performed commendably, exemplified by the top performer rating by Morningstar.

The business has faced its own set of challenges like persistency levels that did not match the high standards we had set for ourselves. Several times over the past few years we have paused and taken a moment to step back and take stock, identify the areas where we were lagging and worked on ways to improve. The results have been commendable and we continue to feel quietly confident about our insurance business with respect to its capability to ensure long-term value creation.

APPROACH, VALUES AND BUSINESS PRINCIPLES

Our approach, values and business principles are an amalgamation of what we feel about the strategic direction of the business and what we have learned over the last 20 years. Broadly we focus on:

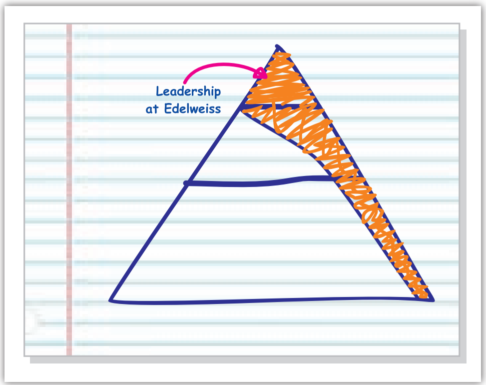
1. Diversification
2. Countercyclical investment with an eye on the long-term
3. Great businesses within great organisation. The importance of enterprise functions
4. People
5. Culture of ownership
6. Customer at the centre
7. How the world is becoming more B2C

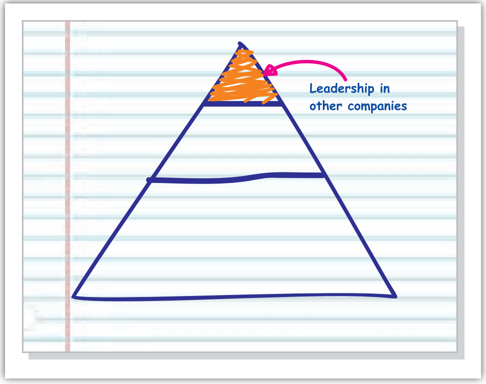
DIVERSIFICATION AND COUNTER-CYCLICAL INVESTMENT

We have spoken about diversification and de-risking the model and how that has occupied a significant part of our thinking over the years. There has also been a sustained emphasis on the contrarian strategy. These counter-cyclical moves into adjacent business lines are consistent with our focus on "synergistic diversification" both via the organic as well as the inorganic route. We have made very successful investments into inorganic opportunities as part of our growth strategy through the acquisition of Rooshnil Securities, Anagram Capital and Forefront over the years. Our recent acquisition of JP Morgan India mutual funds' schemes in India is an extension of this. This has also meant a constant evaluation of the large opportunity spaces in adjacent markets or otherwise, largely born of the need to build capability and capacity to absorb the shocks of an evolving economy and regulatory structure.

PEOPLE

Our ability to seed, nurture and grow new businesses would not have happened if we had not built a great management team – one that combined learnability, business understanding and most importantly, had the intrinsic, rare and valuable ability to use the Edelweiss platform and provide the "values" glue. We have always focused on hiring great people and providing them with a platform to build great businesses.





● *Leadership Model*

- I think we realised very early in our journey that the importance of quality human capital far outweighed any other asset
- A running theme, throughout our 20 years, has been our focus on hiring talented individuals and building up a talent pool
- We also pride ourselves in grooming leaders across the organisation through vertical leadership groups that span our entire organisation rather than only the senior management

CULTURE OF OWNERSHIP

Over the several phases of our journey, people have always been at the top and centre. Our aspiration has been to create a great platform for people to assume great responsibility. We like people who can push the boundary in their thinking, who embrace new ideas and are hungry for more, for the firm and for themselves. Our approach to leadership and development also embodies this predilection – identify great talent early and provide the enabling environment for success. Our Employee Stock Ownership Plan (ESOP) philosophy has also worked to create a culture of ownership and one that promotes entrepreneurship and innovation without compromising on institutionalisation. Within Edelweiss, the focus has always been to create business owners rather than employees.

MAKING MISTAKES

At Edelweiss, we have always believed that making mistakes is the best way to learn. After all, if there were no mistakes, every match would end up 0-0! We consider every setback an opportunity to recalibrate and find out which new windows have opened up.

We have made several mistakes over the years, which have only helped us learn and grow stronger.

- Oftentimes, we have displayed a lack of patience in trying to scale up too many things too quickly
    - Early struggles around our retail foray are legendary – issues revolved around managing higher number of employees and offices
    - We underestimated integration issues during our acquisition of HT Nanavati and Anagram
- Looking at the short-term profit opportunity rather than the long-term business model
- Adding complexity for growth rather than simplicity for growth
- Mistakes in balancing long-term and short-term
- Being product-oriented rather than customer-oriented

The learning we have had from these has helped us grow as an organisation. During our acquisitions, we focused first on building a good team, imposing the highest risk and compliance standards and only then on product and service innovation. Our HR teams have learnt to embrace the different cultures and motivation levers in our retail businesses while keeping our core values uniform. Our experience has shown that by applying a thoughtful and differentiated approach, it is possible to build scalable and sustainable retail financial services businesses.

IMPORTANCE OF ENTERPRISE FUNCTIONS

For people and partnerships to succeed, they require support and back-up. They need a platform that is well equipped in many different ways. The platform should be an amalgam of all the small and big elements that will be required for people and partnerships to succeed. It should be like the self-sufficient aircraft carrier, which not only enables the aircraft to fly and soar, but also to come back safely and get prepared for the next flight. This has been achieved through a strong support system in the form of Enterprise functions.

Our strong Risk and Enterprise functions have been the backbone of our ability to diversify and build great businesses. There are four elements that have enabled us to build a great risk culture. First, as a function, a strong centralised risk team that works closely with each business risk team. This is further strengthened through technology enablement and robust review processes. Second, the orientation that each employee is a potential risk manager – one doesn't need to be a risk professional to recognise and flag off risks. And third, it makes great business sense to treat client risk as our own. Finally, we have an annual risk score card for each of our businesses that culminate in the Risk and Compliance awards, where high performers are felicitated by the Board.

Since 2009, we have focused on developing strong Enterprise functions – Compliance, Technology, HR and Operations to support our businesses. Our Enterprise functions help navigate business and structure level complexity – especially choices made by businesses around products, geographies, clients and delivery models and the increasing need for customisation and automation. Thus, these teams operate as a great bulwark for both risk and business.

PARTNERSHIPS

Another key factor in our growth was the reliance we put on partnerships. Partnerships within the organisation, among leaders, among businesses, with stakeholders like our investors and shareholders as well as with customers themselves. We knew that we were co-creating. It was not just our dream, it was a collective dream. It was not just our journey, it was a collective journey. And it was not our game to win, all of our stakeholders – the Board, the employees, the clients - we were all in it together. Very early in our history, we were able to forge partnerships with investors who saw us worthy of partnering. Our key leaders have been with us for long and have often advised us on the way forward. They are the ones who found new opportunities of growth from time to time. And today, we learn a lot and correct ourselves by listening to our customers and seeking their advice. And in this concept of partnership, we wind up the balance between individual glory and common cause.

CUSTOMER AT THE CENTRE

Customers are at the heart of what we do and happy customers make us happy. In fact it has been our customers who have been the stars to help us navigate our way as we built this diverse financial services platform. I have already talked about how our approach has moved from being more product-centric to being more customer-centric. The success of our new approach has been evident in the success being enjoyed by our wealth management team as well as the high customer satisfaction levels we are witnessing in our life insurance business (Vijaypath!). Customers form the core focus of whatever decisions we now take – we ask ourselves the question – is this what our customer wants, does it help make his life easier, does it provide him a reason, at the end of the day, to be grateful to Edelweiss? If the answer is yes, decision making becomes the easiest thing to undertake.

THE B2C WORLD

With rapidly improving technologies and increasingly discerning and conscious customers, the disintermediation in the world is increasing rapidly. We see more and more examples of businesses interacting directly with consumers through improved and efficient means. We have been increasingly conscious of this change and have invested in a wide variety of technologies to ensure that we are at the forefront of this evolution. At Edelweiss, we have always believed in being in sync with the changing curve, taking care not to be too far ahead and never falling behind the business evolution. This has enabled us to be in sync with the changing contours of the financial services world and provide our clients with best-in-class processes and technologies.

IN HINDSIGHT

We could summarise our approach as encompassing balance, people, partnerships and platforms. I feel our journey has been one of calibrated exploration. We have explored our own capabilities and we have explored opportunities to achieve our goals. And whenever a crisis or a roadblock arose, we used it to explore a new avenue of growth. Much like a marathoner, who calibrates his race strategy whenever conditions are tough. Or, the explorer, who finds a new route to reach his destination every time an existing route becomes untenable! But to succeed in any sport as in business, it is necessary to find the right talent, put hours and hours of preparation and practice to hone it and create an environment that motivates them to be fearless and desirous of success. And a culture that brings the balance between individual glory and common cause. A balance between idealism and pragmatism. This is the same balance conundrum that an Olympian faces between practicing and resting. In an ideal scenario, the sportsman should practice endlessly. However, this could lead to risks to burnout and possible injuries. Practice therefore has to be balanced by adequate rest to give the best possible performance when it matters.

Almost all organisations struggle to maintain a healthy balance between the two – become too pragmatic and risk losing the "soul" of their business – become too idealistic and one may find it difficult to survive in the real world. We faced a similar dilemma when we started out – the key is to follow a balanced approach. The only answer lies in finding constant balance. We can stand on one foot for some time but not for long. Be it inhaling and exhaling – two entirely opposite actions that sustain life, left or right, male or female, acceleration or braking – every aspect of the human life is based on balance between two equally powerful but opposing forces.

Our guiding principle of "Ideas create, values protect" espouses the same twin-force mechanism – ideas are our accelerator while values provide the requisite brakes to keep a check on exceeding our limits. These two pillars that define us also reflect – we firmly believe in the creation of a good leadership bench, which constitutes our ideas. At the same time, our robust risk management processes constitute our values that protect us.

As we look back, we find that we have been able to do this quite well through the interplay of what we like to call the three Ps – People, Partnerships and Platforms. We believed that the only way to realise our dreams was to bring in bright talent – people who were much smarter than us, shared our vision and were willing to join their own energies and aspirations to ours to render the vision larger and shared. We sought every opportunity to attract bright talented people. Often, when the chips were down and the economy was facing headwinds, we went out and searched for good talent. We hired people soon after the tech bubble burst and 9/11 and once again we recruited in the aftermath of the financial crisis of 2008. We are fortunate that some very smart people bought into our vision and joined us. As they came in, we grew, the platform grew. It is these people - many of them in leadership positions within the organisation today – who have defined our growth and acceleration. Today the Edelweiss family is more than 6,200 people strong.

We focused on creating a culture of mutual respect, trust and empowerment where people were encouraged to explore the boundaries of their capabilities and felt confident and secure in a supportive culture. We were among the few companies right from the beginning that provided stock options to a majority of staff, thus living our belief of empowering people and to make them stakeholders.

FUTURE OUTLOOK

We have always felt that the India growth story should be seen from an evolutionary perspective rather than from an "at-a-point-of-time" perspective. As we have often said, India is a great movie to watch but not a good picture to see. At any given point of time, while there may be a variety of "noise", the overall big picture continues to be healthy. This noise, in the form of volatility and uncertainty, will be no more than what we have seen and we truly believe that the next two decades will be a better, upgraded version of the previous two decades.

- India became a USD 1 trillion economy in 2007
- From there, it took nearly eight years to add another USD 1 trillion to the economy
- We estimate that the next trillion could be reached by 2020 – in fact, we believe that after USA, China and Japan, India could become only the fourth country in the world to touch the USD 5 trillion mark in 2025
- After 2025, we could actually be adding USD 1 trillion to the economy every 18 months!
- We firmly believe that the era of compounding for India has truly begun

The bottom line is that we remain extremely bullish about the India growth story – there would be distractions, of course, but the overall growth outlook remains extremely positive.

We also believe that a major chunk of this growth would be financed through the Indian households. There are four primary balance sheets funding India's growth. Of these, the Government would be hard-pressed to expand its balance sheet, Corporate balance sheets are to a large extent stretched and while overseas balance sheets are healthy and will aid Gross Domestic Product (GDP) expansion, their scale would be much smaller. Households in India are currently highly unlevered with only a small portion of the bank debt coming from them. This provides ample scope for expansion in these balance sheets and forms the foundation of our expectations for India. With these thoughts in mind, we aim to base our business strategy to align ourselves to take maximum advantage of the India growth story.

Like any growing economy, India too will continue to consume financial services on an accelerated trajectory in the years to come. The demand for financial services will come from both wholesale and retail sectors. This will be further exacerbated by the low penetration of financial services in the country. The catching up process will add further impetus to demand for financial services. There is an overwhelming need for an all-encompassing financial services platform, right from "farmer to fork". At Edelweiss, we aim to grow in all these areas and become part of the solution to support India's growth aspirations and the aspirations of its people. We have a strategy that works. We will continue this focus. We may continue to make tough calls and at times make mistakes. But our platforms are robust – they are equipped to support our growth objectives and are also cost-efficient, technology efficient and risk efficient. We have the right people with us, we are constantly forging the right partnerships and our value system is well in place. At the same time, we need to be cognizant of not losing this insatiable hunger to succeed or allow any kind of complacency to creep in.

We firmly believe that our strategy of growing 10x in 10 years, 100x in 20 years and 1000x in 30 years provides us not only with a challenging yet achievable goal but also helps us constantly analyze each decision that we take from the context of its impact on our targets. Just like preparing for any sporting event, it demands endurance to battle the bruises coupled with the courage and gumption to still march ahead. At the same time, this has to be complemented with the drive to achieve excellence and consistently outdo ourselves. At Edelweiss, we foresee building a long-term organisation like preparing for the Olympics except that there is no end date and no binomial payoff. The basic tenets however remain the same – hard work, dedication, mental and physical strength and a firm belief in our own abilities.

It is a long-winding road and the challenges are many but we will continue to justify the faith you have reposed in us by consistently exceeding expectations and delivering results that truly make this organisation world-class.

Yours Sincerely,

Rashesh Shah

Rashesh Shah
Chairman & CEO

A reprint of the Chairman's letter from the Edelweiss Annual Report 2016

Notes

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Edelweiss
Ideas create, values protect

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