Edelweiss
Ideas create, values protect

Chairman's Letter 2017

LETTER FROM THE CHAIRMAN

A REFLECTION ON OUR JOURNEY

Phase	Year	PAT (₹million)	Revenue (₹million)	Net Worth (₹million)	Book Value Per Share (₹)
Start of Edelweiss	1996	0.03	0.2	7	0.1
End of Phase 1 Foundation	2000	39	85	104	0.4
Phase 2 Baby Steps	2004	78	281	342	0.9
Phase 3 Joyful Hypergrowth	2008	2,732	10,888	23,274	24.7
Phase 4 Painful Consolidation	2012	1,277	16,707	28,748	34.8
Phase 5 Mature & Balanced Growth	2016	4,144	53,157	43,717	45.1
Start of Phase 6 Gaining Scale	2017	6,093	66,336	52,879	52.0

Last year, we talked in detail about the last twenty years of Edelweiss since inception, enunciating on our successes, failures, struggles and learning in each of the 5 phases of our Edelweiss Journey. With FY17 drawing to a close, we have completed the first year of the 6th phase in our journey – a phase we like to call 'Gaining Scale'. In this phase, the focus is on scaling up our existing businesses to a size where we can be amongst the top 5 players in each business. The over-arching philosophy continues to be around building a leading, diversified financial services firm.

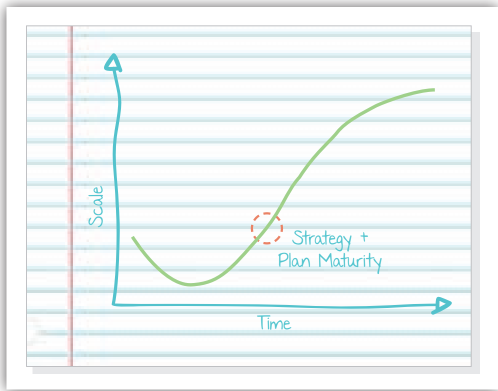
The last phase was a period of mature and balanced growth for Edelweiss. As we seeded and built businesses ground up, we focused on establishing strong foundations in these businesses through investments which could generate benefits for the long-term. In the preceding 6-8 years, we have started a variety of new businesses including retail finance, asset and wealth management, agri-credit and life insurance amongst others.

Some of these businesses were what are, in common parlance, called J-curves. While the gestation period in such businesses is long, the asymmetric pay-off that we earn once these businesses mature provides a sufficiently high return to justify the initial negative returns. We have seen this in multiple businesses over the years, with our asset management business turning profitable in the current year and the wealth management business a few years back.

The defining feature of the current phase would be a disproportionate and exponential growth in scale, as the platform matures for each of these businesses.

> The greatest shortcoming of the human race is our inability to understand the exponential function.
>
> *– Albert Allen Bartlett*

This has been our usual approach for all new businesses, where we experiment for some time with various approaches and build up the platform in parallel. Once the strategy is refined enough and we are confident of our business model, we use the mature platform to target faster than market growth.



Edelweiss business opportunity

OVERVIEW ON FY17

In the year gone by, we continued to be amazed by the incredible depth, resilience and determination showed by the Indian economy. Like the global economy, it was another VUCA year in India where volatility abounded, impacted by events like Brexit and election results across the globe as well domestic ones like Demonetisation, surgical strikes at the border and uncertainty around GST and other reforms. Despite all of this, the economy still grew at a healthy 7.1%, one of the fastest across the world and head and shoulders above peers of comparable size.

At Edelweiss, we had another growth year with strong performance despite the external challenges.

- Our Profit after Tax (PAT) was up 47% YoY to ₹6,093 million while our Ex-Insurance PAT for FY17 was ₹7,194 million, a growth of 39% YoY
- As a result of the strong PAT growth, our Ex-Insurance RoE has crossed 20% for the full year for the first time, standing at 20.7% in FY17

Non-linear growth through On and Off-balance sheet assets

The growth in profit was non-linear as the 47% growth in PAT was contrasted by only a 20% growth in on-balance sheet assets. The strong profit growth was driven by a much higher (93%) growth in off-balance sheet assets.

On-balance sheet assets provide us with stability, predictable linear growth and a sizable asset base. At the same time, off-balance sheet assets provide us with intellectual capital and drive the expansion in our profitability ratios. The scale up in these off-balance sheet assets has driven the growth in our franchise businesses, which have grown substantially in FY17.

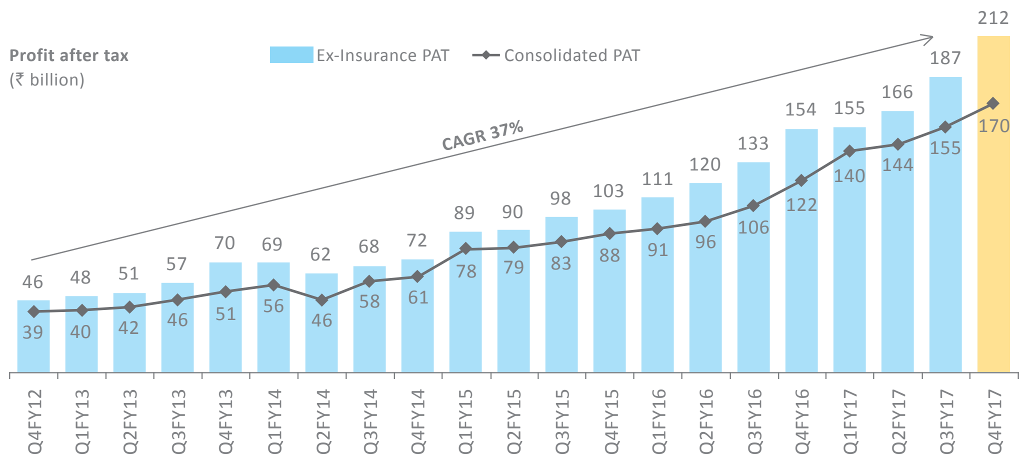
While our off-balance sheet assets continued to grow, in parallel we focused on strengthening our balance sheet. This was achieved by a mixture of equity investment by Caisse de dépôt et placement du Québec (CDPQ) in Edelweiss Asset Reconstruction Company as well as improvement on the debt side, through a larger share of long-term debt, while reducing debt funding costs at the same time.

₹ billion	FY16	FY17	YoY Growth
On-Balance Sheet Assets	321	387	20%
Off-Balance Sheet Assets	609	1,179	93%
Assets Under Advice (Wealth Management)	295	603	104%
Funds Under Management (Asset Management)	50	182	264%
Distressed Credit (ARC Assets)	252	347	38%
Assets Under Custody	12	47	292%
Total Assets	930	1,566	68%

Balanced, Sustainable Long-Term growth

With another four quarters of strong growth, we have continued our upward PAT trajectory, which now translates to a CAGR of 37% over the last 20 quarters.

This sustained and consistent trend has been driven by our diversified financial services model, which is similar to a Bank.



Diversification is the best form of Risk Management

Our diversified businesses give us the opportunity to leverage several parallel growth opportunities, while at the same time providing significant risk mitigation through reallocation of resources as per the prevailing environment. We have built this model over several years to reach a stage where we can call ourselves truly well-diversified. In FY17 our profit was well distributed across segments, with Corporate and Retail Credit together contributing 52% of our profit, distressed credit contributing 13%, wealth management and asset management together contributing 10%, capital markets contributing 15% and the balance 10% being contributed by Balance Sheet Management Unit and other since discontinued businesses.

Going forward, we expect the relative contribution from our retail credit business to rise as we:

- Scale up our retail franchise
- See Incremental growth in wholesale and distressed credit move towards the fund structure

This movement, along with the organic growth in wealth and asset management should also drive an increase in the contribution of franchise businesses to the overall profit pool.

Business Segments	% PAT Contribution
Credit Business	
Structured Collateralised Credit	15%
Wholesale Mortgage	22%
Retail Mortgage	6%
LAS, SME, Agri and others	9%
Distressed Credit	13%
Franchise Business	
Wealth Management & Asset Management	10%
Capital Markets	15%
BMU, Corp and Others	10%
Total Ex-Insurance	100%

Making the Core stronger!

Qualitatively, it was a great year for Edelweiss. We strengthened our back-end, scaled up enterprise functions and improved on our systems and processes.

Risk Management

Our risk management function, which is amongst the best in financial services, was recognised by the industry with the Golden Peacock Award. Our risk management approach is contingent on answering two key questions – "Is it worth it?" and "Can we afford it?" Answers to these two questions, in effect, determine our entire risk management framework and have served us well over the years.

We have always maintained that we will at all times respect risk and going forward, we will be even more watchful, even more risk conscious and even more prudent in our approach.

Ideas Create, Values Protect

Our prudent risk management approach will be chaperoned by our focus on the key tenets and guiding principles which have helped us reach where we are today. We will abide by our motto of 'Ideas Create, Values Protect'. For us, ideas are like the accelerator which propels us forward. However, if unchecked, this acceleration can cause a serious accident. That is where our values come in. Values are like the brakes to our Ideas, helping moderate our movement so that we do not go too fast and get our fingers burnt. Our values are also what have helped us define our approach to being a good social citizen in addition to being a good corporate citizen.

EdelGive

Through EdelGive, we have established a platform to fund outstanding grassroots organisations across India as well as build their organisational capacity to grow and scale. Our employees contribute their time to delivering projects in strengthening functional areas in NGOs pro-bono and this along with their financial contribution saw 75% of our employees engaged with EdelGive during FY17. Our efforts in this direction have been appreciated with multiple awards across CNBC TV18 Financial Inclusion Award and the FICCI CSR Awards.

Culture

> Culture eats strategy for breakfast.

– Peter Drucker

At Edelweiss, we have always strongly believed in the veracity of Mr. Drucker's words. We were always clear that we wanted to build an organisational culture that revolved around ownership and collaboration. Today, we are proud to see the results of the journey we have traversed in building such a culture. By giving independence and ownership to our senior people, we have built a great track record of developing businesses and leaders. Most of our business heads have been with us for at least 10 years now, taking responsibility of multiple businesses through their careers and scaling them up to what we see of Edelweiss today.

BUSINESS PERSPECTIVE

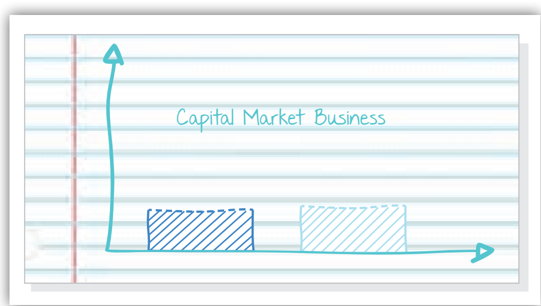
Our businesses are broadly divided into Credit, Franchise and Insurance. Within each of these, we have a variety of business units which together comprise of a product suite that can fulfil the financial aspirations and demands of a vast spectrum of the Indian populace. These businesses have continued their strong performance this year, with robust growth in both credit and the franchise verticals. The insurance vertical continues to be a long-term value creator and is on track for our break-even target of FY22.

CREDIT

When I think about the origins of our credit business, I circle back to a quote that I heard just before we entered into the Credit business, a quote that resonates with me till date.

> Capital Markets is a weekday business but Credit is a weekend business.

Effectively, you earn money in a credit business 24x7x365!



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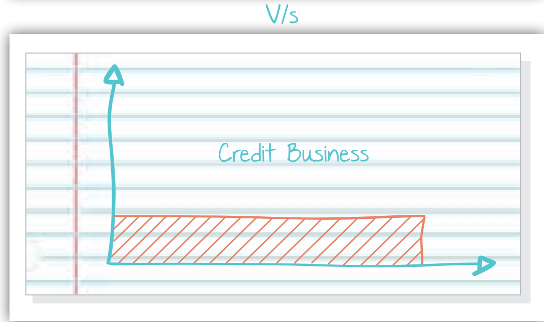


CREATING CREDIT NICHES

Our philosophy around our credit business has been to identify niche areas which are not significantly attractive for banks owing to their size. We then work towards building credit books of around ₹80 - 100 billion in these segments. Building 8-10 such niches could easily help us create a credit book of nearly ₹1,000 billion. Not only has this helped us scale up our credit book with strong underlying profitability; it has also given us the flexibility to quickly alter the mix of our credit book based on the credit cycle.

As on March'17	Book Size (₹ billion)	% Share
Corporate Credit	**139**	**50%**
Structured Collateralised Credit	68	24%
Wholesale Mortgage	71	26%
Retail Credit	**89**	**33%**
Retail Mortgage	36	13%
SME & Business Loans	21	8%
Loan against shares	29	8%
Agri and Rural Finance	9	3%
Distressed Credit	**48**	**17%**
Total Credit Book	**276**	

1. Corporate Credit

- Comprises of Structured Collateralised Credit and Wholesale Mortgage
- Outstanding book stands close to ₹140 billion
- PAT of ₹2,878 million in FY17; YoY growth of 26%
- RoE of 18.2% and RoA of 2.2% in FY17

Underwriting & Collateralisation

The key in a corporate credit business is to keep the credit cost to a minimum. Having seen a few credit cycles in the wholesale credit industry, we have continuously evolved our underwriting mechanisms to ensure a robust credit-appraisal and monitoring system. In addition to our superior underwriting standards, our corporate credit book is well collateralised with a cover exceeding 2x.

Move towards fund structure

At the same time, we remain cognizant of the need to have books of manageable scale. Therefore, going forward, the wholesale book will see growth coming from the asset management model as the incremental growth moves towards the fund structure. This will also help us do deals of much larger size as we free up capital on the credit side to build up the retail book.

2. Retail Credit

- Retail credit book of ~₹90 billion in March 2017
- PAT of ₹1,220 million; 68% YoY growth
- RoE of 16.0%
- Awarded the Best NBFC Award (runner-up) at the MSME Banking & NBFC Excellence Awards

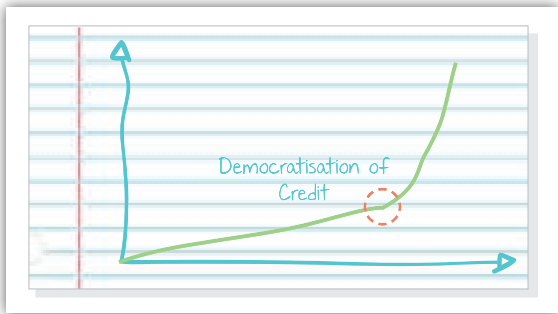
Despite the presence of a significant number of players, retail credit continues to be under-penetrated in India, be it mortgages, SME, agri- credit or microfinance. This is set to change going forward driven by a variety of factors. The primary amongst these is the ‘democratisation of credit’

Democratisation of Credit

- Credit, today, is concentrated with large borrowers – more than 50% of the outstanding credit is to the top 50 borrowers in the country
- However, increasingly, we are witnessing the democratisation of credit as it becomes easier and safer to extend credit to individual borrowers
- This democratisation is being driven by the improvement in credit underwriting mechanisms

for such retail borrowers with a wealth of information now available to lenders, including information on payments, utility bills, online spends, etc.

- This data aggregation has been accentuated through additional information coming from agencies like CIBIL



Availability of customer information

Overlaying all of this is the government's **Digitisation** push through the JAM trinity. By creating a digital identity in the form of Aadhaar and linking bank accounts under Jan Dhan Yojana, the government has taken a major step not only towards financial inclusion but also towards creating a digital financial footprint for the entire population. This should further aid the democratisation of credit, creating truly efficient credit markets with a more equitable uptake of credit. Within Edelweiss, we are leveraging technology in our retail credit business to –

i. Improve customer experience

ii. Reduce operating costs

iii. Enhance objectivity in decision making

SME opportunity

With the India growth story that will play over the next few years, incremental demand for credit, particularly from SMEs will rise significantly. The growth will be driven by tier-2 and tier-3 cities as the expanding economy provides more opportunities for potential entrepreneurs to set up new businesses in the smaller towns. Having established a steady business model around SME credit, particularly focused on these entrepreneurs, we have a robust expansion plan charted out, which will see our SME presence increase significantly over the next few years. Going forward, we expect SME credit to be a major part of our retail credit book.

3. Distressed Credit

- Largest player in distressed credit with Assets Under Management (AUM) touching nearly ₹400 billion
- PAT of ₹974 million in FY17, a YoY growth of 76%, with a healthy RoE of 22.5%
- Investment by CDPQ – leading and highly respected Canadian pension fund

LP-GP model

The beautiful part about an Asset Reconstruction Company (ARC) is that you have two different revenue streams – it is like the ARC is both a Limited Partner (LP) and General Partner (GP) rolled into one. For instance, in a 15:85 model, if you acquire an asset for ₹100 million, you put ₹15 million of your own money and issue Security Receipts (SRs) for the balance ₹85 million to the bank. Effectively, the ARC and the Bank are 15-85 LP partners in the asset.

But the ARC is also the GP in the asset since it manages the asset. On this GP part, the ARC receives the fee, economic interest and the carry incentive. The economics for the pure LP is around 8-10% while you make a further 10-12% on the GP part, accruing overall returns of around 20% on the capital deployed.

Edelweiss expertise

The distressed credit business focuses on buying operating assets which are financially broken. With our expertise in financial turnaround and the ability to provide capital through bridge loans, priority funding, etc., we aim to provide working capital to these companies and get them back on track. At the same time, we have focused on building our turnaround and resolution expertise, creating an expert advisory board of leaders from across sectors like steel, power and infrastructure to help us implement best practices in our portfolio companies.

FRANCHISE BUSINESSES

Our franchise business consists of our wealth management, asset management and capital markets business. Since these businesses are not capital intensive, the key in these businesses is to build a strong foundation based on meeting customer needs backed by a validated business model. The focus after that is on scaling up the business rapidly.

Amount in ₹million	Wealth Mgmt	Asset Mgmt	Capital Market	Total
Net Revenue	4,527	517	5,557	10,601
Profit After Tax	709	72	1,145	1,926
Cost to Income Ratio	76%	80%	69%	73%

Scale Benefits

The franchise businesses of asset and wealth management are strongly impacted by economies of scale. Our cost to income in these businesses is still on the higher side currently because we are investing in building scale in a large and constantly growing opportunity. On a long-term basis, we expect the Cost to Income ratio to come down to around 50%, at which point, these businesses will be highly profitable. With the absence of capital requirement, they will provide a significant ROE kicker to the Edelweiss Group profitability.

1. Wealth Management

The growing opportunity in wealth management is driven by two key factors –

a. Growing affluence and rising disposable income

b. Shift from bank savings towards other financial instruments

Double boost to growth

The advantage with running a business like wealth management is that while we of course witness organic growth by acquiring new clients and enhanced investments from existing clients, the market-linked nature of the business ensures that Assets Under Advice (AuA) automatically increase with the rise in the market. We thus get a double growth booster on such businesses, resulting in a faster growth trajectory compared to other non-market linked businesses.

Gaining Scale

AuA for our wealth management business have seen strong growth this year doubling from ~₹300 billion in March 2016 to ~₹600 billion in March 2017. Our wealth management business is a prime example of the exponential growth we are starting to witness in Edelweiss. AuA has grown 7x over the last 3 years. As a result of this growth, we are now the third largest wealth managers in the country.

A major reason for this augmented growth is that we are constantly investing in hiring people. Over the next two years, we will continue to hire, open new branches and acquire more clients. With an increasing number of Indian retail investors getting comfortable with having advisors and wealth managers, we see the opportunity space expanding rapidly and will continue to invest in the business to gain market share.

2. Asset Management

- Added more than ₹130 billion to the AuM – AuM of ₹182 billion in March 2017
- Over the last three years alone, AUM has increased from ₹29 billion to ₹182 billion – a growth of more than 6x!
- Acquisition of onshore schemes of JP Morgan Asset Management India as well as the Ambit Alpha Fund added ₹45 billion to the AUM
- Completed first close for three funds during the year which added a further ₹45 billion

Private Debt taking off in India

- The current allocation of global investors to India is less than 1%
- This is expected to increase significantly driven by a conducive macroeconomic environment
- At the same time, the requirement for non-bank, non capital market credit is rising as bank credit dries up and corporate bond market continues to be underpenetrated
- Foreign funds are entering the private debt market in India in recent times
- We are amongst the pioneers in private debt in India – which will help us become a significant intermediary and benefit from substantial investment flows over the next decade

At the same time, the market for mutual funds and alternatives is also expanding with the financialisation of assets. The mutual funds market space has immense scope for growth and we have built a robust platform which is ready to form the backbone to another phase of rapid growth. In the alternatives space, which is the fastest growing category in public markets, we are amongst the market leaders and will continue to differentiate ourselves with our investment expertise and strong coverage.

3. Capital Markets

- All-round growth across Institutional Equities (IE), Investment Banking (IB) & Fixed Income Advisory
- Scale-up in the newer businesses like Financial Products Distribution, Prime Broking and Forex
- Market leaders in public debt issues and Commercial Paper issuances
- Awarded the Best Equity Capital Markets House and the Best Broker Award at the Finance Asia Country Awards 2016

INSURANCE

Our focus on long-term value creation in our Life Insurance business has borne fruit. Edelweiss Tokio Life Insurance (ETLI) continues to be one of the best performers among its peer set with efficiency parameters matching the best in industry. The focus in Life Insurance has been on an agency-led, multi-channel distribution approach with emphasis on enhanced productivity. At the same time, we are also focusing on building a direct capability through a digital approach to selling life insurance. This is at a nascent stage but we hope to provide a differentiated solution to customers which should add to our value proposition.

- Our Individual APE continues to grow rapidly and is among the fastest growing in its peer set
- We have also improved on our claims ratio to 93% in FY17, compared to 85% in FY16
- Awarded the Best Life Insurer Award at the Outlook Money Awards

RANDOM MUSINGS

In Edelweiss, we have tried to think through every aspect of our business in a way which is simple, yet comprehensive. Whether it is identifying and acting on business drivers, building a strong core in the form of enterprise functions or even our provisioning policies, we have discussed and deliberated extensively on these internally and in the process, arrived at certain ideas which have become native to us. This section on random musings is an avenue to discuss some of these ideas.

Loss Given Default v/s Gross NPA

There has been a lot of talk recently about the NPA situation and the high Gross NPA (GNPA) for banks in India. The hype around these numbers has spooked many investors with predictions of an extended overhang of the situation. This got us thinking on the appropriateness of GNPA as an indicator of asset quality. A high GNPA ratio is an indicator of the deficiencies in the loan approval and underwriting process of the financial institution. However, GNPA is not really the true assessment of the health of a bank and the strength of its balance sheet going forward. To truly estimate the potential financial hit the bank will take, Loss Given Default (LGD) is a more comprehensive and appropriate measure. LGD is the share of a loan that is lost when a borrower defaults. This will, of course, vary depending on the kind of loan and the extent of collateralisation. For example, average LGD for a home loan is much lower compared to the average LGD for a corporate loan.

A provisioning policy based on LGD will alleviate investor concerns to a large extent. To be clear, an LGD-based provisioning policy will not make stressed assets go away. That is an occupational hazard for any lender and must be guarded against with stronger underwriting, detailed credit appraisal and adequate collateralisation. However, what such a policy will do is remove the uncertainty around the actual stressed assets situation and allow investors to analyse the future with a higher degree of comfort and confidence.

Building a business

Over the years, a key question we have often been asked by different people is what does it take to build a sustainable business. Having engaged in trying to build sustainable and quality businesses over the last 21 years, we have realised that building a business involves the management of 4 key vectors:

1. Cost

> [If you buy things you do not need, soon you will have to sell things you need.]
>
> – Warren Buffet

Managing costs is not about cutting costs. It is, in fact, about calibrating costs to ensure that necessary spending for the present is supported by investing for the future. At Edelweiss, we have always tried to invest 10-15% of our pre-tax profit on future businesses and opportunities. This has helped us build businesses like wealth and asset management to such scale today.

2. People

> [Management is nothing more than motivating other people.]
>
> – Lee Laccoca

If there is one resource that makes or breaks an organisation, it has to be its people. Everything else is manageable, be it capital, risk, etc., but what really sets apart good companies from great companies are the human capital. At Edelweiss, we have been lucky to have worked with people who have not only proved to be valuable assets in driving our business and enterprise functions but equally adept at helping extend our core focus on people management to their own leadership teams.

3. Risk

> [Never test the depth of river with both feet.]
>
> – Warren Buffet

Like Mr Buffet, we truly believe in the importance of managing risk and treading carefully. Risk management has been core to Edelweiss since we began our journey.

What we have constantly focused on in Edelweiss is not to build on risk as only a function but as a part of every individual's core guiding philosophy. By embedding risk management into the culture of the organisation, we have tried to ensure that the first line of defence starts from each individual.

4. Customers

> The goal as a company is to have customer service that is not just the best but legendary.
>
> – Sam Walton

While managing customers seems a very basic hygiene factor, it is surprising how many organisations give such little thought to it. However, organisations across the world are now realising the importance of 'customer obsession'. At Edelweiss, we have also increasingly enhanced our focus on customers with three new guiding principles added to our original list of ten, each of them focusing on customers.

In our view, as long as these four parameters are well-managed, building a quality business should come about naturally. There will of course be a variety of other variables but eventually, they assimilate into one of the above four factors.

LOOKING TO FY18

In FY18, while the global economic environment will continue to be challenging, India will be a bright spot with strong, sustained GDP growth. The reforms undertaken over the course of last year will have a far-reaching and long-lasting impact. Initiatives like demonetisation and the proposed rollout of GST are likely to transform the Indian economic landscape. While we may witness short-term volatility, the long-term trend continues to be upward – as I often say, "India is a great movie to watch but might not be a good picture to see".

Within Edelweiss, we are well-geared to take advantage of the opportunity. Our retail businesses are starting to gain traction and our franchise businesses have also built significant size and scale. The creation of a strong turnaround unit in the distressed credit business will add to our market leadership and differentiate us further. Both our wealth management and asset management businesses are expected to continue their strong performance next year. At the same time, our life insurance business will continue to grow faster than the industry and on-track for long-term value creation.

With the strong performance in FY17 and the internal targets we have set for FY18, we are well on our way to achieving the FY20 targets we have set for ourselves, focusing on a Consolidated RoE of 18% and an Ex-Insurance RoE of 22%. This will be driven by an annual PAT growth of 25-35% over the next three years and a reduction in Ex-Insurance Cost to Income Ratio to below 50%, along with a scale up in retail credit, which we are targeting to constitute at least 50% of our overall credit book by 2020.

LOOKING TO THE FUTURE

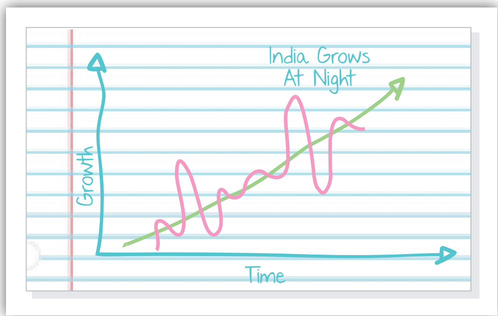
Despite the strong growth in the Indian economy, we continue to face intermittent challenges due to both Global and Indian factors. A lot of investors, domestic and especially foreign, often come and ask us about how India will handle all these challenges. We ask them to look back at India over the last 25 years – we faced a variety of 'negative' events, be it the Harshad Mehta scam, Kargil War, Parliament Attack, 2G spectrum allocation issue, Coalgate, and others. But it is also true that in those 25 years, the market index Sensex grew ~30x from 1,000 to 30,000 and rising and the economy ~8x from US$275 billion to $2,300 billion. It is, therefore, important to look at India from two concurrent perspectives – a bifocal vision, so to say.

Bifocal Vision

When I say **Bifocal Vision**, I refer to using two lenses while looking at India –

- The first one focuses on the short-term situation that persists and
- the second one at the long-term prospects of the country

In the short-term, it might seem like there are a host of problems plaguing us, limiting our ability to grow. But fact of the matter is, we are still one of the fastest growing economies in the world! We often tell people, just because we don't see it on a daily basis in front of eyes, it doesn't mean we are not growing. We continue to grow and because a lot of it isn't tangible on a daily basis, it wouldn't be amiss to say that **India Grows At Night!**



- India's long-term story continues to be extremely bullish, driven by the effect of compounding
- We are at the cross-roads of a substantial compounding effect with all three factors (Size of Economy, Rate of Growth and Time for which this Rate will continue) in India's favour
- We envisage a $5 trillion economy by 2025 and a potentially $20 trillion economy by 2040, by which time we will be behind only USA and China!

This incredible growth will drive expansion across sectors, including financial services. Currently, there is a huge untapped potential in financial services in India. The credit and deposit base in rupee terms has been doubling every 4-5 years in India over the last two decades. At the same time, there is significant headroom for growth going forward, seeing that a large part of the market is still under penetrated. Few key trends will drive this growth in financial services –

i. Privatisation of credit

ii. Democratisation of credit

iii. Shift towards financial assets

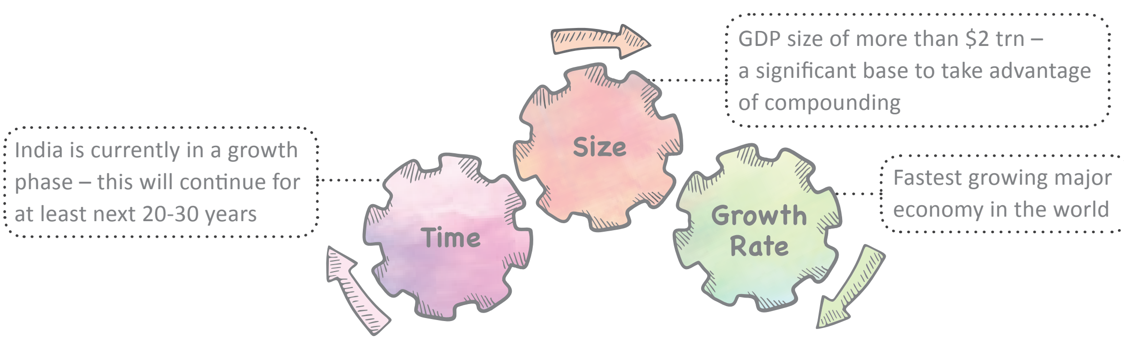
iv. Increasing affluence

v. Rising insurance penetration

vi. Increasing capital markets participation

We expect to see –

- Credit (as % of GDP) increase from 70% to 100-120%
- Mutual Fund AUM (as % of GDP) increase from 8% to 20-25%
- Insurance Premium (as % of GDP) increase from 3% to 5-7%



This will have a domino effect on most of our businesses since we cover almost the entire spectrum of financial services. Further, our current size in each of our business leaves ample runway to continue to aim for exponential growth going forward, having already established, what I would call 'escape velocity' in most of these.

As we have built Edelweiss over the last 21 years, I have realised that running a business is like running a marathon – it is not about completing one run of 42 km but about completing a 1 km run 42 times! We are only at the halfway mark yet, having completed 21 years recently. The first half marathon has been a wonderful journey of mostly ups and a few downs. We remain as thankful for the ups as we are for the downs, which have taught us some of our best life lessons.

We hope to imbibe these lessons in our journey ahead, while continuing to do the things we have done well till now. We have a long, winding journey ahead of us. There would, of course, be challenges and roadblocks, many of them unanticipated. However, like we have done so far, we will continue to move forward in our aim to create a quality organisation defined by its excellence in risk management and obsession towards customer experience..

Yours Sincerely

Rashesh Shah
Chairman & CEO

A reprint of the Chairman's letter from the Edelweiss Annual Report 2017

THE EDELWEISS JOURNEY

Our journey over the past 2 decades can be encapsulated in 5 phases, each vastly distinctive from the other. The outcome of each of these phases has been challenging and highly rewarding.

BIRTH PANGS
(1996 – 2000)

Since our organisation's foundation in 1996, we endeavoured to build a great organisation, not just a good business. To help achieve this, we developed a set of Guiding Principles that defined our core values and beliefs and our method of doing business. These foundations also helped build a culture of ownership, a common purpose and shared values within Edelweiss.

We started with a capital of ₹10 million, which allowed us to obtain a merchant banking license. The license amount, however, changed to ₹50 million just before the company was incorporated. This 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.

BABY STEPS
(2000 – 2004)

In 2000, we had our first blockbuster year of financial performance. We had also begun to feel the need for some stability in earnings and to go back to looking seriously at "adjacent markets." We started considering a foray into the Broking business. In the same year, we also raised our first round of outside capital.

In 2001, the markets and economy sank and business slowed down, accompanied by the bursting of the Internet bubble. But this didn't deter us from setting targets for ourselves. We stood by our rationale - "One should never waste a crisis". We set about making the optimum use of this downturn – our human capital increased from 10 people in March 2000 to nearly 100 in March 2004, and we had a new 5000 sq. ft. office. During this phase, we also started exploring new, innovative business lines, which were in their nascent stages in the country.

JOYFUL HYPERGROWTH

(2004 – 2008)

This phase of our evolution we like to call "Joyful Hypergrowth" at Edelweiss, because we were expanding rapidly. 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. This was also a phase of serious introspection, wherein we conceived the 10x10 strategy - we aimed to grow 10x times in 10 years. 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.

Hereon, our objective was to stretch, soar and test our limits and see where we land.

PAINFUL CONSOLIDATION

(2008 – 2012)

From 2008 onwards, dynamics at Edelweiss were very different. 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.

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. All our significant businesses today were seeded and nurtured then and right through 2012 and beyond. We became the 24th life insurance company in a joint venture with Tokio Marine. On the capital markets side, we began a Global Wealth practice. We now had our own Business Solutions Group; we built a strong risk and governance team; we formally set up EdelGive in 2008. The challenges faced in this period helped us realise our core competence and understand the importance of diversification.

MATURE & BALANCED GROWTH

(2012 – 2016)

Synergistic diversification in the previous phase helped us to reduce our dependence on the capital markets and create a strong and sustainable revenue line going forward. Between 2012 and 2016, we focused on true diversification, with the aim of achieving what we would like to call balanced growth. We strengthened our businesses, simultaneously working to de-risk them to enhance sustainability. At the same time, we decentralised our businesses whilst creating strong governance and risk management structures both at the Edelweiss level and at the business group level.

The focused consolidation efforts in the previous phase 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.

Excerpts from the Chairman's Letter, Edelweiss Annual Report 2016

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