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EW/Sec/2018/377

October 31, 2018

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E),
Mumbai - 400 051.

Dear Sirs,

Ref.:- Symbol: EDELWEISS

Sub: Transcript of Earnings Call

Enclosed is the Transcript of Earnings Call held on October 29, 2018, pertaining to the Financial Results of the Company for the quarter and half year ended September 30, 2018.

Kindly take the same on record.

Thanking you,
For Edelweiss Financial Services Limited

B. Renganathan
Executive Vice President & Company Secretary

Encl: a/a

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EW/Sec/2018/378

October 31, 2018

BSE Limited
P J Towers, Dalal Street,
Fort, Mumbai – 400 001.

Dear Sirs,

Ref.:- Scrip Code: 532922

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Executive Vice President & Company Secretary

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Edelweiss Financial Services Limited

Q2 FY19 Earnings Conference Call Transcript

October 29, 2018

Moderator: Good Day, Ladies and Gentlemen. And Welcome to the Q2 FY19 Earnings Conference Call of Edelweiss Financial Services Limited. As a reminder, all participant line 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Divadkar from CDR India. Thank you and over to you, sir.

Varun Divadkar: Thanks, Margret. Good afternoon, everyone. Thank you for joining us on the Q2 FY19 results conference call of Edelweiss Financial Services Limited. We have with us today, Mr. Rashesh Shah – Chairman and CEO, Edelweiss Group; Mr. Himanshu Kaji – Executive Director and Group COO; Mr. S. Ranganathan – President and Chief Financial Officer; Ramya Rajagopalan – Executive Vice President, Corporate Development; and Salil Bawa – Head and Senior Vice President)Stakeholder Relations).

Before we begin, I would like to state that some of the statements in todays discuss may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the results document shared with you earlier.

During the discussions, we will be referring to two presentations, the Q2 FY19 Investor Presentation, and the addendum presentation is uploaded to the exchanges.

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

Rashesh Shah: Thank you. Good afternoon to all of you. Again, a very warm welcome on this Q2 Investor Call. As you would have seen from the results, it was a good quarter. We had profit after tax consolidated of Rs. 272 crore and profit after tax, excluding insurance, Rs. 322 crore. So, a growth momentum that over the last 30 quarters has been there continues in this quarter, in spite of some headwinds towards the end of the quarter. For this quarter, we also had ROA, excluding insurance, of 2.5% and ROE of about 19.1%. So, more or less, growth and business is usual in this quarter.

Customer assets have also grown fairly well to Rs. 2,47,900 crore of total assets. Our credit book is around Rs. 49,000 crore, out of which about Rs. 21,000-odd crore is retail credit and our GNPA is 1.78 with NNPA 0.79. Our ARC business had a good quarter, our wealth management also has now come very close to Rs. 1 lakh crore of assets under Edelweiss, and our asset management business has

now also grown to Rs. 35,000 crore on assets under management. So, both businesses have done well, steady growth inflows.

We have also been talking about the importance of liquidity cushion for the last many years, because we have seen 2008, 2009, we have seen 2013, we have also seen the importance of liquidity cushion at times like this, which is also maintained very well. And we continue to have about 9% to 10% of total balance sheet, and about 11% to 12% of our total borrowings as liquidity cushion.

Our diversified model continues as we grow along. And I will speak a little bit more about each of our businesses after my colleague S. Ranganathan gives a slight overview on this quarterly numbers and the balance sheet, and then I will give more color on each of the businesses after that. Over to you, SR.

S. Ranganathan: Thank you, Rashesh. And good afternoon all of you, once again, for attending this call. Let me, as usual, take you quickly through the Q2 Earnings Update.

I am happy to announce that we recorded a profit after tax of Rs. 272 crore in this Q2 FY19, registering a YoY growth of 47% over Q2 FY18. The ex-insurance return on equity for the quarter stands at 19.1%.

Other highlights:

Our total revenues for Q2 FY19 stands at Rs. 2,672 crore, which is 32% year-on-year increase. Consolidated profit after tax of Rs. 272 crore compared to Q2 FY18 of Rs. 185 crore, is up 47% on a year-on-year. Ex-insurance profit after tax of Rs. 322 crore is up 46% year-on-year when compared to Q2 FY18 of Rs. 207 crore. The balance sheet grew from Rs. 48,102 crore in Q2 FY18 to Rs. 49,433 crore by the end of this quarter. Consolidated ROA for the quarter stood at 1.9% and ex-insurance stood at 2.5%. Consolidated ROE for the quarter stood at 14.7%, and ex-insurance ROE stands at 19.1%.

Coming on to the main businesses that fared during quarter:

Credit business profit after tax grew 54% year-on-year to Rs. 245 crore, post minority. Share of retail credit stands at 42% today as compared to 41% a quarter before. Franchise and advisory business profit after tax grew 9% year-on-year to stand at Rs. 76 crore this quarter. This segment has been impacted due to dampened capital market activity during this quarter. Ex-insurance cost-to-income ratio for the quarter was 47%. Credit cost remained well under control with GNPA was at 1.78% and the NNPA 0.79% at the end of the quarter.

The collateral cover for the corporate book remains robust at 1.9x and the LTV on the retail book stands at around 45%.

Basically, looking at the income streams.

Our fund based income grew 36% year-on-year to Rs. 1,914 crore during the Q2 2019. Fee and commission income grew by 13% and stands at Rs. 515 crore during Q2 FY19.

Our life insurance business continued to grow and recorded a net premium of Rs. 184 crore for the Q2 FY19, a growth of 63%.

Briefly talking about the balance sheet:

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We continue to take steps to strengthen our balance sheet. Consolidated capital adequacy at the end of quarter two stands at 16.16%. We have a comfortably matched ALM and liquidity profile over the short-term and medium-term. Long-term borrowings stand at 59% of the total borrowings, and we aim to maintain liquidity cushion of 11% to 13% of the total borrowing.

During the quarter we successfully raised Rs. 2,000 crore by way of public issue of retail bond in our leading NBFC, ECL Finance Limited. Our debt to equity ratio, excluding treasury assets, remains at a stable level of 5.2 times as at 30th September, 2018.

Edelweiss continues to get access to funding from money market and banks. We have raised Rs. 2,500 crore since September 21st, including Rs. 1,450 crore by way of commercial papers. We have adequate liquidity cushion and estimated business inflows currently, positions us to meet all contractual liabilities over the next six months comfortably.

As on date we have Rs. 7,600 crore due till 31 March, 2019, of which Rs. 5,500 crore in the form of commercial paper. Therefore we do not see any challenge in respect of meeting these obligations.

With this, I complete my speech. I would hand it over back to Rashesh for his part of the communication.

Rashesh Shah: Thank you, SR. We have been getting a lot of queries and feedback from investors, and there are about seven or eight questions that most of the investors are asking us. So, I thought I will just, instead of having a standard commentary, I will just answer those questions. So, I think the first question that a lot of investors have been posing has been how do we see the current liquidity situation in the market?

And as you all know that we are feeling the impact, the entire industry is feeling the impact. But in the last eight, ten days things are starting to open up, we are seeing volumes in commercial papers and all starting to come back. My estimate is that we are now at about 13% of the normal volumes, fortunately banks and all are still active, the bank approvals and all are coming, bank lines are still there. But on the bond market side volumes are currently at around 30% of the volumes. I would expect that by end of November we should hopefully get to between about 60%, 70% of the normal volumes, which in our world would say normalcy has come back. And the kind of fear psychosis or confidence crises or whatever people are calling it which was there a couple of weeks ago has started abetting now. So, things are, maybe, one-third or normal, but the trend is very positive and we are hoping that in the next few weeks liquidity situation gets back to normalcy.

The second question a lot of investors have been asking us has been, how is the Edelweiss liquidity situation? That, as my colleague SR just reported, we are well placed as we have filed a few days ago, we have obligations of about Rs. 12,000 crore to repay till March, against which we are holding liquidity cushion plus the treasury assets plus the loan against shares book, all of that, is around Rs. 13,000 crore to Rs. 14,000 crore. Along with that we also expect in the next six months around Rs. 3,000 crore coming to our ARC business, we get normal inflows of about Rs. 400 crore – Rs. 500 crore every month in our credit business, which would be another Rs. 2,500 crore to Rs. 3,000 crore. And we have about Rs. 6,000 crore to Rs. 8,000 crore of bank lines in the works, which are either approved or getting approved as we speak. So, all this is without estimating any inflows from the mutual fund market, which also we think will open up soon, and commercial paper as well as NCDs will also start coming in some form or the other over the next few months. But even without that, with the bank market, with the business receipts we

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have from ARC and credit business and the liquidity cushion treasury, loan against shares, highly liquid credit book we have, we will manage the liquidity. Obviously, we want to have the NCD bond market opening up and liquidity coming back to normal so that we can aggressively pursue the growth agenda that was there. I think for the next five, six months most of us will be careful in managing liquidity, and only when normalcy comes back the growth will start coming back. I think a lot of us will be calibrated in the growth in terms of how we look at the liquidity situation over the next few years. I do think that things like ECB and international markets will also be another source of liquidity for housing finance companies as we go along.

The third question that I have been asked often has been the commercial paper's non-availability impact on Edelweiss, assuming the commercial paper market shrinks what will be the impact on Edelweiss? Here I am very happy to say that we have never used commercial paper as an ALM arbitrage tool. So, profitability in the credit business, there is no excess profit which came because of commercial paper utilization. Our commercial paper borrowing was directly for our treasury and what we call the liquid credit book, the loan against shares book. So, these are the only two areas where we use commercial paper and we think if the commercial paper market shrinks and assuming that it will become half of the normal that was there, we expect that we will have about Rs. 4,000 crore to Rs. 5,000 crore of commercial paper outstanding, which means we will lose about Rs. 4,000 crore to Rs. 5,000 crore of borrowing opportunity in commercial paper which was funding our treasury and liquid credit book. These books are about an average ROA of about 100 basis point, so we would expect that from a profitability point of view 50% shrinkage of the commercial paper market should lead to about Rs. 40 crore – Rs. 50 crore of the after tax impact for us, which as you always said in a diversified model is okay and can be handled. We will use other sources of funding also for the loan against shares and other books, where cost might go up but we think we should be able to pass it on to the customers and continue to provide this product and service for our customers also.

The fourth question has been on our strategy and composition of our credit book, where I want to again reiterate that we have a very diversified credit book, as I said, out of Rs. 49,000 crore of credit almost Rs. 13,000 crore is retail and SME loans, another Rs. 12,000 crore is real-estate and wholesale mortgages, another Rs. 9,000 crore is the corporate book, Rs. 8,000 crore is loan against shares and agri book, which are generally short duration and very liquid book with very low NPAs. And the last one is about Rs. 7,000 crore of our ARC and distressed book. So, fairly well diversified book, especially ARC has also upside and carry along with that. So, that also balances out the overall book. So, given this we are very comfortable with some volatility, some turbulence in individual books. And we also ensure that in our credit approach we get our pricing right, so even the wholesale mortgage book we make sure that we get the pricing right and we provide also as per expected credit cost. And our approach on providing has been that we provide either as per our model or actual experience, whichever is higher. So, the idea is to make sure if you get your provisioning right you will get a pricing strategy also right.

As you may remember, friends, we had excess provisioning of Rs. 140 crore in the last quarter when we moved from Indian GAAP to IndAS, and we chose to keep this provision into the provision kitty itself, and we did not claw this back. This is a very conservative approach and underscores our approach that you should provide as aggressively as you can so that you make sure that whatever is the expected credit cost in a particular strategy is also highlighted in your P&L.

And finally on our credit book, most of our credit book is collateralized with average LTV of between 45% to 55% and we feel comfortable that in collateralized credit

your loss given defaults are fairly low, because you have very high rates of recovery.

The fifth area of enquiry has been around our real-estate book and the color on our wholesale mortgage book, which as I said earlier is about Rs. 12,000 crore. At Rs. 12,000 crore we estimate that we are 2.4% to 2.5% of the total market for this credit strategy. We have built this book over the last 10 years in a very slow and steady manner. We showcased this book, obviously, to RBI when they do the inspection, but also to credit rating agencies. We showcase our approach, our book to the credit rating agencies, to banker's creditors. But along with that we also have raised our real-estate funds which co-invest along with our wholesale mortgage strategy. So, here we have multiple investors over the years who have done due diligence on this book, who have done due diligence on this strategy, and then they have committed funds to co-invest alongside our books. So, this has gone through testing from international external investors also who have looked at the strategy and seen whether the risk reward and our ability to manage this makes sense or not. So, on that I feel fairly comfortable that we have had multiple oversights on this book.

As we have seen our addendum, we do mainly housing in this at an SPV level, we do not do holdco financing. About 95% of our book is housing finance projects, in 95% of the projects we are the sole lender to the project which gives you a lot of flexibility in managing risk. Also, 80% of the inventory that we have is under Rs. 1 crore which are also fairly, where the demand is fairly high, and the price elasticity is also fairly good. We also, obviously, do very strong underwriting, but we do believe in post-underwriting risk management also very closely. And for this we have a strong project management team and a distribution team. We also have a sales team which can sell apartments, which can sell homes. And this project management as well as distribution team ensures that even post-underwriting if there is any risk management issues we are able to manage it.

Also, we have ensured that though we will have NPAs, like all other credit businesses, we always ensure that there is generally no actual loss and there is collateral and you are proactive and your risk management is robust. And we have found that your recovery rates can be almost 100%, that has been our experience. We have been able to recover money and not eventually lose. So, you may have NPAs but you would not have actual credit loss if you can manage your risk well and be proactive on that.

In the last few years we have done that, wherever projects were in trouble we would do step in we have changed a few developers, we have done last mile funding, we have brought third-party last mile funding to complete projects when there were issues on any project. And we have done this over the last 10 years, we have seen demonetization, GST. So, headwinds always come, but I think in any credit business it is very important to acknowledge that the environment can change. And if the headwinds come you should be prepared to be able to manage the risk associated with that.

The other question I have been asked has been, what is the outlook on the real-estate book or on the business and the housing market overall? Our sense is that the overall housing market should continue to do well. We have had almost five years of falling inventory, falling prices, so this current turbulence of headwind is also happening not on an asset bubble, because house prices have not been going up for the last five years, we have seen too much investor buying in homes and all, there is only end user buying that has been happening. And for the first half home sales were fairly good, there was almost a 8% growth in the first half of home sales over last year. So, the market is coming back and as long as Indian economy grows at between 7% to 8% we think housing interest will be there, India sells between 2

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million to 2.5 million homes every year. So, there will be demand for housing. And along with that, as long as the home loan market is open, which we are happy that banks and a lot of housing finance companies are continuing the business of giving home loans, in spite of this liquidity, so as long as that goes on we do think that home loan, home sales will continue to drive the housing market. If there are any projects which will get stuck, they will only get stuck because of the lack of funding to complete the project, because our experience has been that any project that gets completed, especially where the pricing is below Rs. 1 crore, it is not hard to sell that, you have to complete the project and not have any hindrances on that. So, as long as that happens, actually people are more worried at demonetization stage on whether home sales can happen. So, the outlook currently seems to be that home sales will not slow down, and as long as home sales do not slow down we do think that real-estate portfolio for not only us but everybody in the market should continue to do well. There will be some projects which will need additional funding for completion, and for that there will be enough funders available, including private equity funds, including ARCs and all, who will step in to provide last mile funding, to provide completion financing, and ensure that projects are getting competed.

The other question we have been getting is on our ARC business and the outlook on that. I am happy to report that the business continues to be robust. We have deployed more funds in this quarter, but H1, the first half year this year has also seen good recoveries, we have recovered almost Rs. 2,000 crore and we expect to recover another about Rs. 10,000 crore to Rs. 12,000 crore in the next half as the large recoveries around Essar and Binani and all start coming in. So, we will be receiving funds back, which obviously is a good news from recoveries and cash flow point of view, but also from the book point of view the question we have been asked, will the book shrink? We feel that we have a lot of opportunities that we will also deploy the funds over the next three quarters, so as we get the receipts we will also be deploying them back, because the current pipeline seems fairly good.

Also, one of the things in our ARC we have not highlighted is that we have a lot of expertise in real-estate also, our ARC has done four to five real-estate distress asset revivals, whether it was a mall, or it was a commercial building which were incomplete projects and the loans had become NPA with banks, our ARC acquired those loans, reworked the project balance sheet, provided some last mile funding, and ensured that the projects got completed and recoveries happen for everybody. So, we think that distressed asset business will continue to do well. In a distressed asset business we also have another Rs. 10,000 crore fund alongside with that, half of which is deployed, so we have about Rs. 4,000 crore to Rs. 5,000 crore of deployable surplus in the distress credit fund that we manage. And given the recent environment our ARC is also talking to many investors to maybe create a focused real-estate distressed fund which will focus on providing completion and last mile funding for real-estate projects which may be stuck for lack of financing.

And the final question is, Edelweiss strategy going forward, any changes on that? So, I think at this time it is important to reiterate that we are a diversified business and that has been our strength, we have always spoken about that because even the current turbulence in the NBFC segment underscores that, because though NBFCs part of our business is not our only business. Everybody is currently focused on that, we have a lot of other businesses like our ARC business, asset management, wealth management, insurance, capital markets, all of them are growing well, have got huge amount of growth, value, franchise value ahead of that. And we remain positive on all those businesses, and on NBFC we obviously think this turbulence will die down, the liquidity situation will slowly crawl back to normal. Because NBFCs have been real story, NBFCs have been responsible for credit delivery in India, and NBFCs and banks coming together is a fairly robust model for the credit needs of the country. So, there might be some headwinds in the NBFC business because of liquidity crunch, we are confident that this will not only come

down but our model, which is a diversified model, will also handle this and maybe allow us to be counter cyclical in that. In our credit business we will continue to balance our credit book by growing retail more faster than wholesale, that has been our stated strategy for the last few years. We will do wholesale through the funds that we manage, so maybe our own balance sheet wholesale book might shrink as we get more repayments, while we will continue to deploy on those strategies, both corporate credit as well as on real-estate credit through the funds that we manage. In our wholesale credit strategies we have raised more than $1 billion over the last few years and there is quite a bit of un-deployed capital available on that also. So, I think the wholesale business in the fund format will continue to grow. The retail business on our own balance sheet should continue to maintain its growth, because we see lot of opportunity in SME financing, in small ticket home loans and other consumer facing businesses. So, with that we think this particular phase will also us to highlight and underscore our diversified business model that we have.

So, with that I come to the end of my part of this, and we will maybe open it up for question-and-answer from all of you. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: I had two questions. One, if you can give us details of top builder exposures in your wholesale mortgage book, so that will actually help us give some light on the kind of builders that we are lending to. So, that is my first question, I will ask the second one next.

Rashesh Shah: Why don't you ask the second one, I will answer both of them.

Viral Shah: Sure. So, now that the SRC case seems to be very near to resolution, if you can give us some sense of what is the kind of gains that we will be looking at from both the ARC as well as from the Edelweiss perspective?

Rashesh Shah: Actually, both the questions, see our approach has always been that we work on a portfolio level. And our approach always has been that we look at our portfolio as a whole. So, whether it is a credit book or ARC book, there will be some accounts which will become NPAs, as we have always stated. Our policy has been not to talk about individual accounts, though, as I said with the credit rating agencies and others we do showcase our portfolio and our underwriting and the collateral we have, and which project we have funded and how we have funded and all that. Because what we have found is without having complete color on the process and the name, because just the name does not help in getting any color on that, maybe you feel that you have got the names but it does not tell you what is the risk and reward in the underlying project. We do real-estate projects on an SPV level, we do project level control of a very high degree. And even after that, as we have said, a few accounts will become NPA. But I think it is not right to speak about any names and give individual account wise status. And the same thing applies to Essar Steel also, we have always refrained from, if you remember, we had given a calculation of how the ARC model works and what could be the portfolio extra profit or carry that will come about and not want to talk about individual accounts. Because the idea of having a portfolio, the idea of having multiple accounts is to make sure that the good and the bad all get balanced out with each other, and the effect is more felt on the outcome of the whole portfolio as a whole. So, I think that has been our stated policy.

I think a color on the real estate, by giving the names I do not think our investors will get any more comfort than they have now, because over the years they have got

confidence in our underwriting capability, but as I said, post-underwriting capability. Because it is a large market, we are about 2.5% of the market, and like everybody else though currently there is extreme focus and extreme nervousness around this segment of the market, we have currently not seen any change in the last four to six weeks in that. And our approach is, as an when anything changes on the real-estate book, we will come and inform investors and analyst on how the book is doing as a whole. And I do hope that the investors have faith in our risk management capability, on our approach that we have shown over last 10 years through demonetization, through GST and all those other upheavals that have been there that we underwrite well but we even post-underwrite whenever there is a turbulence or there are headwinds, we will know how to manage it.

Viral Shah: Yes. So, basically, we had few peers of ours also who had come out in the calls and given the names. So, it was more from that perspective?

Rashesh Shah: Sure, I understand, I think each company follows their own, all companies are not the same. Everybody follows their own approach, and we have always followed this. I do not think this is the first time, I think about three years ago, five years ago also on calls people wanted to know names on individual accounts. And we always said that it is not because, it has not been our policy to speak about individual accounts, but we obviously showcase all of this when we go through RBI inspection, we showcase all of this where people do due diligence on us. And we are always comfortable with that.

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

Avinash Singh: Two questions, first one, okay not going to the names, but can you please provide some concentration details in both your wholesale lending segment, I mean the developer loan as well as the collateralized loan? What percentage do the top-five, top-ten constitute? And additionally on the developer, if you can just provide the geographical break, which are the top cities and what percentage? And secondly on the tax rate, I mean, the higher tax rate is it because the losses are sitting on the insurance subsidiary? And if yes, do we expect once the insurance subsidiaries turn profitable the effective tax rate going down? Thank you.

Rashesh Shah: I think on the first one we always maintain that in all our wholesale books we have a per account cap which is usually 1% of the total book. I think our current account cap is about Rs. 400-odd crore per account, our average account is around Rs. 100 crore to Rs. 150 crore, we have about 60 to 65 accounts on the real-estate book and another about 45 – 45 on the corporate book. And it is a fairly well distributed, I think the top 10 should end up becoming about 35% to 40% of the total book. And it has been steady, it has been the same for last 10 years where there is a tail and there are few accounts. But, actually more than the top 10 we look at more per account cap, because we always said the per account cap should never be more than 1% of our total credit book, which is currently about Rs. 49,000 crore. So, we have tried to maintain that as well as we can. And on the tax rate, you are absolutely right, I think it is the insurance losses that we have which gives us this higher tax rate on the consolidated accounts.

Avinash Singh: In that case, one, if this interest subsidies turn profitable then can you expect the effective tax rate to come down?

Rashesh Shah: Actually, not only will it come down, it will actually be better because the insurance business will have a carry forward loss, so hopefully it would not pay tax. So, you will have profit without tax, currently we have the loss on that where we are not

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getting the offset. But I think overall you are right, the tax rate will come down when the insurance breaks even.

Moderator: Thank you. Our next question is from the line of Subranshu Mishra from Motilal Oswal Securities. Please go ahead.

Subranshu Mishra: Sir, just wanted to reiterate on the wholesale mortgage book. Want to understand the number of accounts, if you are not giving out the names which would certainly give a lot of comfort to the investors, but the number of accounts and where all they are domiciled? In specific, how many projects in Bombay, how many projects in Bangalore, how many projects in NCR? If that can be done, that is the first question. The second question would be around the risk management practices in loans against shares, if you can give color to what kind of LTVs and what kind of promoter funding is there in loans against shares?

Rashesh Shah: So, first of all on the first one, we are largely present in six markets which is Mumbai, including MMR, Mumbai and Pune is about 1/3 of the book, total. Then we have NCR, Bangalore, Chennai and Hyderabad. These are the six markets in which we are.

Subranshu Mishra: What is the proportion of these?

Rashesh Shah: As I said, I think Mumbai and Pune would be about 1/3, NCR would be about 25% to 30% and the balance is distributed across Bangalore, Chennai, Hyderabad.

Subranshu Mishra: And the number of projects that you can give us in each of the markets?

Rashesh Shah: As I said, I think the number of projects total should be about 60 – 65 projects at any point of time.

Subranshu Mishra: And the risk management factor and loans against shares, sir?

Rashesh Shah: On the loan against shares, a large part of the book is what is called ESOP financing book, because we are one of the leaders in ESOP funding. So, almost 75% of the book is ESOP financing, which are to individual high-level executives, in banks and others when they exercise the ESOP they borrow against that. The balance 25% is also margin funded book, there is no promoter funding or promoter's financing in that book. So, it is call loan against shares, it is mainly for our wealth management customers and for ESOP financing. And the LTVs in that are approximately about 50% and we have no delinquencies on that, even in this entire recent fall and everything there has been no forced liquidation nor has been there any NPAs on this book.

Subranshu Mishra: So, have the LTVs somewhat fallen? And you asked for additional shares in this period of time.

Rashesh Shah: Yes.

Moderator: Thank you. Our next question is from the line of Rahil Shah from Ambit Capital. Please go ahead.

Rahil Shah: Sir, how much borrowings was done through the banking channel post September? If I collected the number right, overall you raised around Rs. 2,500 crore.

Rashesh Shah: Yes We have got approvals of about Rs. 2,500 crore on the banking channel. We also have raised…

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S. Ranganathan: About Rs. 1,000 crore on the banking itself and about Rs. 1,500 crore in the form of commercial papers.

Rahil Shah: So, the bank disbursed around Rs. 1,000 crore to us post September?

S. Ranganathan: That is right.

Rashesh Shah: Maybe from the 24th of September.

Rahil Shah: Yes, post that event. And what is the incremental borrowing cost, both on banks and CPs?

Rashesh Shah: Well, it has been about 40 to 50 basis point more than what we would have normally paid.

Rahil Shah: And sir your now 40% of the book is large wholesale and to corporate credit. So, with this cost of warrants no inching up, so how we are placed in terms of pricing, like we would be able to pass on this increase to the new customers or we will look out, like, we will slow down on the disbursement?

Rashesh Shah: As we have said, the wholesale book we are increasingly anyway doing it in the fund. So, but I think if your question is, is there price elasticity on this? The answer is yes, we can pass on this. So, if you see last eight, nine years, our NIMs have been fairly steady. In fact, even on the SME book and the small ticket home loans, as the cost has gone up we have been able to pass it on. What happens in lot of these books you have things like processing charge and all that that you normally wave off. When things like this when you want to increase the price, you start reducing the waiver on processer charge and adjust your actual yield on that basis. So, in investor PPT also we have a slide which has shown our NIM across various, on Slide #23 you also see how the NIMs are steady. So, we feel that there are parts of our book where price we can pass on. And also remember, our liability is also only about 1/3 of our liabilities are getting reprised, all the liabilities are getting repriced. Our borrowing is also more than three years at a fixed rate.

S. Ranganathan: 85% of our borrowing is above 18 months and plus, so there is no question of reprising there any which ways.

Rahil Shah: So, from this level, like from September end you are saying or from FY18 end?

S. Ranganathan: September.

Rashesh Shah: So, as I said, I think what happens when interest rates go up your assets get repriced and your liabilities get repriced, and how you manage the asset reprising, liability reprising is your entire interest rate sensitivity approach. What we have found usually is our NIMs get impacted around 20, 30 basis points, so if you see last many years our NIMs have been between around 7.5 and they hover around 20, 30 basis point above or below that, depending on this interest rate sensitivity that is there. And we have always maintained that we will try to maintain NIM at 7.5 pus minus 0.5, and that is I think achievable in spite of this recent increase in cost of borrowing.

Rahil Shah: So, we are not looking to slow down on our disbursement on both of these exposures?

Rashesh Shah: Not because of interest rate, but obviously liquidity is the reason everybody has slowed down. So, I think for the next five, six months we will continue with retail and

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SME. But on the wholesale ones I think overall there might be slowdown until the liquidity conditions come back to normal. But as I said, in our case, we were always planning to do incremental, a lot of the wholesale now happens in the fund structure, so that we will continue on that count. So, I do not think the interest rate cost is going to be an issue for any slowdown, I think currently next five, six months everybody will be focused on liquidity and calibrate their growth according to liquidity available in the market.

Rahil Shah: And sir last question, everyone has concerns on the real-estate exposure, in fact, for the entire industry. So, you cannot share the names and all but if you can share your underwriting guidelines or something, how you go about giving or sanctioning real-estate loans? So, that would be also helpful for us to understand.

Rashesh Shah: I think there are two parts, I think one if underwriting and other is post-underwriting. So, underwriting, as I said, we have focus on housing because housing is a self-liquidating asset. Like infra project where even after you complete the project you cannot sell that project, there is no exist available. In housing it is a self-liquidating asset, so that is why 95% of our book is in housing. We also make sure almost 100% of our projects are RERA approved, they are completely RERA approved. 90% of the projects we are the sole lender, because we have realized that at the project level, at an SPV level your risk management is much easier if you control the project. And if you do not have other creditors with whom you shared pari-passu charge it becomes a lot easier. We also found that apartments or houses which are below Rs. 1 crore is where the demand is very strong, actually it is around between about Rs. 50 lakhs to Rs. 75 lakhs on an all India basis, and around Rs. 1 crore to Rs. 1.5 crore in Mumbai. So, this is the range at which the demand is very robust, to 80% of our inventory is below Rs. 1 crore category.

Rahil Shah: How much is your exposure to under construction projects?

Rashesh Shah: Sorry, I do not understand what you mean by under construction, because all projects are under construction only, we do not do LRD.

Rahil Shah: Sorry to interrupt, you were explaining.

Rashesh Shah: No, I was just saying that what is important also is over the last 10 years we have also built a very robust post-disbursement risk management group where we do project management, we have people who have actually worked in real-estate over the years, they have run projects who are part of that team. So, we do very active monitoring, we do active project management, plus we have sales and distribution team which also can sell apartments and homes. And we, I think, on an average have sold anywhere between 20 – 30 apartments a month to 40 - 50 apartments every month on an ongoing basis. So, we also have sales capability, we have project monitoring capability, as well as in our ARC we also have distressed asset management capability to ensure that projects get completed. Because in real-estate, housing especially, we have found that completion of the project is the most critical variable. If you complete the project everything gets handled. The amount we have sold is about 100,000 square foot per month in the last few months. Our own distribution team has sold close to 100,000 square foot every month.

Moderator: Thank you. Our next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: Somebody had asked this question and you had said you would not be getting into the details, this is about SR. I was just wondering, because the amount involved is so large, and since you are the second largest lender over there, what kind of flow

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back can happen and what kind of profitability it can come through? I was just wondering on that.

Rashesh Shah: See, again, it is not prudent to talk about individual account, economics and profitability, because that takes away the focus on the portfolio. And we have said, look at this as a portfolio. The total receipts on Essar we will get, you should remember, 85 of that belong to banks, because all this are in the Essar structure, so most of them we have done 85:15. So, most of the upside that will also come will go to the bank, or we will end up getting some incentive and carry that is the as per the structure that we get. But I think for us from a cash flow point of view a lot of people have asked us, Essar plus Binani, total cash coming in, not profits, but cash coming in should be about Rs. 2,500 crore to Rs. 3,000 crore in the next five, six months. But overall, I think profit will vary account to account depending on what IRR is there and all. And I think as and when it comes it will be reflected in our results.

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

Nischint Chawathe: Sir, basically three questions from my side. First, on the corporate and the real-estate business. I am sure you would have done detailed update exercise, how comfortable are you about your book, what kind of pain points do you really see? And in this backdrop would you be running down the wholesale book?

Rashesh Shah: So, Nischint, I think the wholesale real-estate corporate book is according to us a good risk-reward book. But there is always a difference between NPA and actual recoveries. And our experience has been that usually recoveries are very high, almost 100%, you do not lose money on this deal, but they do have chunky NPAs and all. And hence we have always felt that more than NPS structure these kind of strategies should move to a fund structure. So, last three, four years we have raised parallel funds and our idea was that slowly and steadily we book more and more of this into the fund structure, and only keep a small part of that on the NBFC, the co-invest part on the NBFC. So, we do expect that in our corporate book, I mean, the wholesale book both of this put together is about Rs. 20,000 crore, we expect to get about Rs. 4,000 crore to Rs. 5,000 crore coming back every year, the average tenure is about three to four years. And my expectation is, if we get about 4,000 crore to Rs. 5,000 crore coming back every year there might be redeploying about Rs. 1,000 crore – Rs. 1,500 crore every year because that will be our co-invest share for this book. So, this will come down a little bit over the years, but along with that we will grow, our ARC book will hopefully continue to grow, and the retail book will continue to grow. And that has been a stated strategy for the last three, four years of allowing our balance sheet to be more used for retail strategies and using funds for more and more wholesale strategies.

Nischint Chawathe: The second thing is, on the entire contagion on the sector, given the fact that real-estate or developer lending is sort of reused significantly today, and maybe some of the NBFCs would have gone significantly slow on the retail side as well, how do you see a contagion or risk in the sector and what is the way in which we could come out of this?

Rashesh Shah: Sure. I just want to one other thing, if we look at even the loss given default on the wholesale real-estate book, it has been about 7.5% on stage three. We have provided 7.5% but actual experience has been lower than 1%. So, as I said, you may have NPAs but you will have also very high recovery rates in this kind of books. I think he contagion issue is an important one, but what happens is at a project level there is not much impact on contagion because hardly any project is dependent on refinancing. All projects that we have are dependent on project

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completion and sales. So, what I think, if there is no incremental funding available for real-estate project, then the new projects will not get launched because usually you try to do a financial closure when a new project is being launched. So, we will see a step back on new projects happening, but on existing projects where the financial closure has happened where you have structured it in a way that between the cash that has already been invested plus the customer flows and construction finance and all, the project will get completed. And that is why I said, as long as home loans are happening, as well as home sales are happening, the project will get completed. In housing we have seen, when the project gets completed usually all your risk gets mitigated, and our average cover is about two times. So, even if there is a 5%, 10% fall in pricing it wouldn't erode the collateral cover too much. So, the key is, will home sales continue, will home loans be available for people to buy homes, and will the project get completed? Because unlike other parts, here the contagion does not affect our particular project, if that project has got its funding in place that project will get completed, because even if outside funding is not there that project is not impacted by that. And that is why we constantly highlight the fact that SPV level management is very-very important. So, there are two parts, I think one is at an SPV level, and we saw that in infra also, if a road project got completed there was no risk in that. But unlike a road project where there is no liquidity event at the end of it, in homes there is a liquidity event because this is a self-liquidating asset, because people buy homes, they take home loans to buy homes. So, as long as that continues we do not see, in fact, as I said earlier I was truly more worried at the demonetization stage because that could have impacted the economy as a whole and could have impacted home sales. So, I think at a project level there will be some project if there is a funding gap it will struggle to get additional funding, but there also there will be ARCs and there will be other stress funds and other funds who will provide… and as I said, we are also looking at a fund to provide some last mile funding or completion funding for good projects which are stuck. And we have done that in a quite a few cases, not only us, other ARCs have also done that with malls and hotels and commercial buildings in the past. So, I think in that I do not see a big contagion effect for the whole sector as a whole.

Nischint Chawathe: And just one final question, and this was actually on the asset management side of the business. With the regulations changing on mutual fund TERs, how do you really see both the asset management and wealth business evolving? And do you see a risk that given the fact that there is going to be TERs on mutual funds reduced, it could have some rub off in terms of the PMS business as well? Thank you.

Rashesh Shah: In fact, if you see our asset management, wealth management, there has also been a lot of focus on alternatives. And I think this particular market, this location that is happening will shift some of the strategies from NBFCs into alternative funds. Because, as I said, advantage with credit funds is that they do not have ALMs and they do not have NPA issue because they are not borrowing. So, given that, the NPA issues and the ALM issues are not there, as long as the risk reward is good, as long as recoveries are there even for projects that go into NPAs, I think the fund structure might be a more appropriate one. So, I do think that this will bring about more focus on private credit funds or more alternatives. So, both our asset management, wealth management, there has been huge focus on alternatives. So, I do not think the recent mutual fund changes will affect us much. In fact, after all of this settles down, we think this will give a much stronger boost to alternatives, especially, alternative credit funds because India needs, historically, we had PSU bank providing credit, then we got the private banks, then we got NBFCs and HFCs. And I think after this all the recent events we will have the private credit funds also providing other kinds of credit. So, different strategies will come through different organizations, whether it is NBFCs, HFCs and funds. And I think in our asset and wealth management business, we've built a strong franchise. Our customer satisfaction rates are very high. And a lot of our customers are looking to

us for innovative products, which happens to alternatives. So, I think mutual funds will always be there. But increasingly, for any wealth manager the dependency on mutual fund fees will be smaller. And you will be more and more focused on alternatives, on brokerage and execution services, and on things like margin funding and credit services.

Nischint Chawathe: But would the fees on alternatives also not come down, just because mutual fees are coming down as well?

Rashesh Shah: I don't think so. In fact, they will go up, because there will be more demand. Because creating an alternative platform will take some time. I think it takes about four, five years to build an alternatives platform. Even if you see globally, there is Blackrock, which is a big mutual fund outfit, while there is Blackstone, which is a big alternatives outfit. So, I think the age of alternatives is upon us. And alternative has its own requirement of skills and capabilities in building the platform. So, I currently do not see that alternatives fees will come down.

Moderator: The next question is from the line of Kushant Parekh from Emkay Global. Please go ahead.

Kushant Parekh: This is Jignesh here. One of the question has just been asked on this mutual fund part, this TER getting reduced. So, I understand that the alternatives would be compensating for you. But overall, what is your look, what is your view on this entire episode of the TER shrinking out here? Do you think this is overall going to impact brokerages or even wealth advisers to cut down the cost and to shift towards, not only alternatives or to have a lesser focus? I mean, even mutual funds would be cutting down on the wealth advisers or going for more direct. What's your overall view on this, not only for Edelweiss? That's my first question.

Rashesh Shah: Sure. I think, overall, you are right. I think what will happen, volumes will go up, fees and commission will come down. That has been the trend everywhere in the world and even in India. And you will use a lot more technology, training and scale benefits to compensate and get higher profitability. The same thing applies to even the mutual funds itself. I think you will look at most of the mutual funds, their overall fees may come down, which came and technology and economies of scale, their profits might go up. So, I think we see the next 10 years on that line only that as long as, because India is still scaling up well, we see household wealth going up by $500 billion, $600 billion a year. And the banks are flushed with a lot of liquidity, so the bank rates may not go up. And as a result of that people will look for ease, which will come to mutual fund, which will come to insurance companies and will come to alternatives funds as you go along. So, I think we have seen that in the brokerage industry also commissions coming down, scale going up and cost coming down because of use of technology and economies of scale. And I think that will be the name of the game going forward.

Kushant Parekh: My second question is pertaining to your, not quite specifically to the developer finance from your side, but now obviously there has been a crunch and you are seeing one of the lead has, like Supertech, has already announced that there has been some stress. Do you think this scenario is getting built whereby over leveraged developer or there could be a cycle of default might happen or there would be one large guy or a couple of large guys might see a stress and a chain of default starts from the developer side? Now, I just want your view more as industry perspective rather than just from Edelweiss point of view. Do you think there is a probability building up that if this scenario continues the next another, say, 30 days or 60 days, there will be some large default might happen over the developer finance side?

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Rashesh Shah: Again, as I said earlier, we should remember, most of the real-estate project financing is at an SPV level. Very few people are doing holdco funding. Everybody is doing financing at a project level. Most of the financiers can control the project. We have changed developer from one developer to another on a particular project who could not execute. Even today, a lot of the large developers are always in touch with us that if any of your project in stuck, they are happy to come in as what is called a development partner, DP model it is called. So, I think it is very important because there is a lot of misunderstanding and misinformation on these contagion effect and if a guy defaults, will everybody. Because most of the credit is at a project level, the project is very insulated. Because as long as that project gets completed, it has no connection or no correlation with anything else on the funding side with other people. If a developer defaults on one project, he might still be able to continue on the other project if the financial closure and sales of that project are going well. In the early days, there was this problem typically for developer was feeling cash crunch in one project he would take money out of other project and put it out here, and that was the largest risk until a couple of years ago that the contingent within the developers, if a developer is doing 8 projects and he is struggling on one project, slowly and steadily all the eight projects will start feeling the financial crunch because he will be moving money from one to another. The good news is, now with the new law, the developer cannot move money from one project to another. 70% of the cash flow of the project has to remain at the project level under law. It is a criminal offense to take money out of the project. And all the cases you hear, whether it is Amrapali, whether it is Unitech, whether it is JP, all of them, a lot of them are cases where money was taken out of a project to fund something else. What we have found is as long as the money is in the project and the project gets completed, the risk is lower. So, I think the new law is a very important one. And our real confidence in this whole business has got underscored after the law was passed, because earlier every creditors, like all of us, had to do project monitoring at a very intense level, because we needed to make sure. So, I remember when demonetization happened, we were extremely paranoid. And we were constantly looking, saying, "Will any developer take money out of the project we have funded in to some other project?" So, we were intensely focused on that because at that time the law was not there. Once the law is in place now, now we know that it will be a criminal offense for anybody to try that. So, I think, this currently, the market is very spooked and there is this whole theory going on that all the real-estate projects will fall one by one after each other. But the good news on real-estate is that every project is independent, every project is insulated, every project is ring fetched. And as long as the project, and that's why I keep on harping that 95% of the projects we are the sole creditor where we can decide, we can change the developer, we can bring in some fund, we provide last-mile funding, we can cut prices and force him to sell more inventory. All of that can be done if you have control of the SPV and at the project level.

Kushant Parekh: Just to add on this, this was really helpful, but just to add on. Do you think a consolidation in the developer or the real-estate sector is most likely, over the next three to five years you see a consolidation happening and very selected players getting very strong, or much stronger than what it is right now? Do you think that kind of scenario building up? And then, more of developer finance guys are having more exposure towards those limited guys. Do you see such kind of scenario happening? Why I am coming to this is because this particular segment looks to be most vulnerable from the market perspective. But if NBFCs wont fund them, we are not seeing overall growth in the economy coming. I mean, it is a very important segment overall for the economy. So, I am asking that you see that here is a consolidation happening in the sector?

Rashesh Shah: I think it has been going on for the last few years. But if we look at anywhere in the world, it is like any services business, you look at IT services, look at financial services, you look at real-estate, it is not a very oligopolistic market. There are not

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only five players, because India is a large market and every city is different. So, I do think consolidation was anyway under way, because in the last five, six, seven years, a lot of the small developers who were doing one project here and one project there, were either becoming insignificant or were getting marginalized. But I think what will happen most likely is the weaker developers who have a good project will partner with the stronger ones. I think this entire development partner model, and if you look around there have been so many cases of that already in the last three, four years were strong developers they don't bring their capital, because everybody has only limited amount of capital. One of the biggest constraints for an oligopolistic industry is how much capital can we put to work. No development can say I will bring in $10 million to work on that, because you need capital to do projects. So, I think a lot of the slightly weaker developers who have good projects, who have got the land, who have got the approval but may not have the brand name and the execution capability, they will partner with the stronger names. And it has happened with us also. In a lot of cases where a developer approached us, and we said, no, we can't fund you, but we will introduce you to so and so. If that builder is willing to partner with you, we will fund you, and then we will fund the project. And we have done at least about 10 to 12 cases of that, where we have said good project but we also need a good development partner for us to be comfortable to fund the project.

Kushant Parekh: Just last one from my side. Your overall adequacy at a constant level has almost reduced from 19.5% in December to close to 16.1%. Pardon me if my numbers are a bit here and there. But what is your take over this 16% sort of adequacy? Do you think the capital raising would be a little faster, little earlier than what you are projecting? Any view over capital raising or selling some stake or something like that? That is it from my side.

Rashesh Shah: I think the 16% would be higher by just 0.5 percentage points or more, because we are currently holding a lot of cash in the mutual funds. And mutual funds carry 100% risk weighted or G-sec, which carries 0% risk weighed. So, as a result of that, and we also have some FDs in bank's which carry, I believe sort of 20% risk weighted. Because as we are holding a lot of cash, I think everybody is just holding cash for all the future obligations. And this cash has been invested in mutual funds. And also part of that is the risk weighted on the cash we are holding, if you convert this into treasury bills or G-secs, the capital adequacy will go to between 16.5% to 17% very quickly.

Kushant Parekh: Okay. Do you plan to raise capital? I mean, any plan which you made, I mean, what will be your expected period by when you will need capital to sustain 30% sort of growth?

Rashesh Shah: We have always maintained that first half of 2020, fiscal 2020 which is the next year between April to October, we will raise capital. We have always indicated that and that has been part of our growth strategy. And we think we will continue with that. Because as I said this turbulence will die down and there will be growth opportunities and growth opportunities will require capital. So, I think we are maybe about one year or three, four quarters away from there.

Kashyap Sir, this is Jignesh's colleague Kashyap here, if I can squeeze in two quick questions. One, you have mentioned about the development of financing is that whenever there is even a problem at a project specific level there are multiple options available to you which is to change the developer or a forceful of inventory. One question that when that happens, do you believe that there is a contagion on the real estate asset prices down the line if this does not get unjammed in it let us say next two, three months? That is quarter number one, what happens to the real estate prices then? And question number two is that if you look at slide number #16 in your Presentation, the second one, Point number C which is the historical

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recovery of default cases, there is 84% cash recovery and then rest is in the other assets. If you could share your experiences in this rest in the other assets kind of recovery, was there any revision in the asset prices, you might have recovered your full money but was there any haircut on the part of the owner of the asset?

Rashesh Shah: Yes, I think the first question you said will there be a contagion on real estate pricing and people will cut price. I think the good news is that the last 5 years prices have actually not gone up but actual come down. As a result of that, I do not think there will be indiscriminate cutting of pricing but there will be structuring that will happen, I think people will take more cash up front and we believe to reduce the price for that. I think that will definitely I mean the outcome of this liquidity will be the more cash you are willing to pay upfront, the more you can get a lower price. But I do not see our price was breaking out because 5 years prices have not gone anywhere, and the actual demand is there. So, I think people will try to incentivize more cash payments rather than just indiscriminate price war out there. On the second thing, when we say 84% cash recovery and rest in other assets, very often we have either personal guarantee, or we have other assets that are pledged with us, we can take that also over and liquidate that. So, I think at project level we have been able to recover 84% money but then after that, we use other ways of recovering, so up till now we have recovered 100% of the money. But as I said you know these are the businesses where NPA's very chunky NPA with low loss given default and that is why a fun model usually works very well.

Kashyap Actually my question was that rest in the other assets if there was any forced sale of inventory what was your experience over there? If at all there was a forced sale of inventory?

Rashesh Shah: See there is no forced sale of inventory. What you do is, you take inventory and then you liquidate in a structured way, so in some project, you will get money and then you will end up taking 3 flats or 4 flats and then you will use your distribution team to sell over a period of time. But in your book, the movement you have taken the flat at a discounted rate, you have at least known that the recovery has been done and you can close that account and go forward and then you can take your time sell. So, there is no such thing as forced liquidation, you have to do it very sensitively. But usually, this Rs. 1 crore and below is a very priced elastic market. So, you tweak it a little bit, you give a little bit of extra, you do not charge, what is called the plus-plus which is the flow rise and all and you can actually move inventories fairly significantly because this is the market where 4% - 5% fall in pricing can lead to change in demand, it is a very price elastic market.

Kashyap And when you said, you do 95% sole financer, would you do end-to-end project financing start from the start point till the last floor is built?

Rashesh Shah: No, usually, we come after the land and the approval has been done. Usually in way this works that the land and up to the approval stage, our equity and equity like the developer puts his equity, we have some equity partner, some equity funds coming there and after that we do what is called project funding then there is construction financing, and then there are actual sales that happened. So, usually, coming at a project finance stage and either we do construction financing or help them get banks to fund construction finance which is usually a smart part. But at the project stage, we are the only financer.

Moderator Thank you. The next question is from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg Thanks for taking the question. On the slide number #40 of the PPT, it says that the liquidity question on balance sheet is somewhere around Rs. 3,300 odd crore

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and then on the slide number #46 it again say that the cash in liquid assets are Rs. 6,900 crore or so where the break-up is again given in the below over there. So, there is an additional cash in liquid assets to the extent of Rs. 3,700 odd crore as we speak? Thank you very much.

Rashesh Shah: Yes. We actually differentiate between liquidity question and treasury assets. So, the other part that you highlighted very correctly are the treasury assets. Treasury assets can be in form of you know either G-sec or cash which are arbitrage or things like that. Usually the Treasury assets or sort of the charge that we give to banks while the liquidity question is free of any charge or any encumbrances from anybody. So, what we call liquidity question is the cash that is available to us which has no charge to anybody. Treasury assets since they are part of the same entity in which banks have given loans, they have a floating charge on that but the treasury assets also liquid assets, we can raise cash against that. So, what you are seeing is A plus B.

Vikas Garg Okay. So, will it be safe to assume that the A size of it the cash liquid assets you would already have some kind of the borrowing against that one-to-one in a way that if you were to unwind all those assets, liquid assets, so one-to-one your debt side also would come down to that extent, while the on balance sheet Rs. 3,300 crore is completely encumbrance. In a way, there is no one-to-one matching of the debt side on that book.

Rashesh Shah: No, actually even treasury assets except for CBLO that we had shown that is only back-to-back borrowing that is there. Outside of that, there is no back-to-back borrowing. So, the treasury assets are liquid assets but they have a floating charge of the banks who have given loans into that entity. So, it is not a back-to-back at all, it is a liquid asset. So, you can for liquidity purposes, it is immediate cash available to us. If you have to raise cash tomorrow against it, we can raise it but as I said the liquidity question has no encumbrances or charge even a floating charge against it, it is completely out of that.

Vikas Garg Okay. Yes, that is very helpful. And if you can just also give broad nature of this liquidity question of Rs. 3,600 crore, is it like a pure cash which is sitting or it would be into some liquid investments or something?

Rashesh Shah: Okay. It will be in Mutual Funds, it will be in Government Securities, it will be in FD's and banks. We have the details of that on Page #40.

Moderator Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai Hi, a follow-up from Sunil Tirumalai from Credit Suisse. Sir, your NPA number has been creeping up 1.78% seems to be kind of an all-time high. On a fast-growing book, such a rise in slippages is a bit worrying and especially if you are talking about slow down now, through the percentage number it is likely to go up even faster. So, can you give some color, which segments are driving the rise in NPA's and what is your outlook on that? Thank you.

Rashesh Shah: See, overall we have said as per model that we have, our overall NPA's, gross NPA at 2% and that net at 1% has been our guidance going forward. So, we are in that range itself. And as we are growing, retail NPA's are slightly lower, the wholesale NPA's we think hover between 2% to 2.5%. But as I said NPA with a very low loss given default on that while the retail NPA's or the gross NPA's are around 100 basis points to 120 basis points, because there is a large housing finance book also on that. So, overall our weighted average with the mix that we have, we always said the model should be round 2% gross NPA and 1% net NPA

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and we should be able to stay there. As the mix undergoes the change this will change a little bit, but we do not the structural basis see a big change in the mix, it might happen for a quarter couple of thousand crore of loan against shares stay back. But overall, we think retail will continue to grow and become larger and larger part of the total book since the retail NP's are around 100 basis points lower than wholesale NPA's we think this model will continue in this range itself.

Sunil Tirumalai Okay. And my next question is again going back to the real estate book where you said you have fairly tight considerable and oversight into the project level. Would you have information on the buyers of homes in that project? I mean, do they normally buy without financing or how much financing is done by banks? I mean, how many of them buy through home loans given out by banks or HFC's? Some color on that would be helpful.

Rashesh Shah: So, I just also wanted to add on the asset cover you had said, we have also 56% provisioning that we have taken on our with NPA's that you are referring to and actually this is slightly higher than the loss given default that we actually expect. So, I think we have always followed the methodology of you know I think NPA providing for it and I think some question on that. So, we hope that we have maintained the recovery rates that we have maintained over the years. On the home loan, I think most of almost 80% - 90% of home loans of this project are with a home loan. So, there will be very rarely apartments in this project which are sold without a home loan and home loan market has been about 55% by banks and about 45% non-banks which include HDFC and others also. So, if there is a slowdown in home loans yes some of the housing finance companies, I do not think it will materially impact the overall profile. In fact, on every project that we have funded there are usually 3 or 4 home loan companies which have a stall here. Very often there will be PNB Housing, there will be HDFC, and there might be State Bank. So, usually every project has about 3 or 4 housing finance providers who are also at the project itself.

Moderator Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai I have three questions. The first question is on the liability side I think with the way things have moved I think one thing is emerging that Mutual Fund have been lending to NBFC's and almost 35% - 40% concentration kind of number. So, that number may eventually come down from the risk mitigation for Mutual Fund guys. So, how do we see our liability strategy changing going forward? Are we going to do anything different to ensure that we have a lot more diversified process of funding, if you can throw light on that? My second question is, with respect to our Asset Management and Wealth Management business, I understand that our capital market business is quite cyclical with operating leverage playing out on both the sides but how is the case in terms of Wealth Management and Asset Management business? I mean are they also as closely link to capital markets or are they kind of rightly the co-relation is slightly on the lower side? And the third question is, in the wake of the recent dynamics and our intent to preserve liquidity and kind of flow on the growth side, how do should we look at our guidance or aspiration of growing our profit at 25% to 35%? That is it from me, sir.

Rashesh Shah: So, I think on the first one, if you see slide number #42, on the Investor PPT, we have shown that Mutual Funds are totally about 32% of our total borrowing but about half is from CP and half is from NCD. So, I think the NCD is the more important and I think CP is a smaller part of the problem because the total outside in CP's as I said even if they shrink by half, it would not change much overall for the industry as a whole. Of course, if your profits were depended on the ALM arbitrage using CP then your profit will get impacted. But as I had clarified earlier, we had never used the commercial paper for an ALM arbitrage business model.

So, if you see on that side, you will see the retail has been 17% of our total borrowing, this was the retail NCD's and bonds that we issue. Our long-term target of retail is about 25%. So, if you asked me it should be about 30% banks, about 25% retail, another 15% NCD's maybe about 5% to 8% commercial paper, and balance would be others like Insurance Company and International Borrowing. So, I think part of the Mutual Funds will get replaced with retail on a longer-term basis, which might have a slightly higher cost but will be more than longer-term and more stable. We have always kept banks at between 35% to 40% all the years and that will continue to remain that because I think having that part of your borrowings from the bank and this is across quite a few banks, is also another source of stability which has underscored in this time also. So, I think overall having that mix will continue. On the cyclicity of our asset management, wealth management business a lot of our Asset Management is (a) alternatives; and (b) in credit. So, the equity markets cyclicity does not affect it as much, of course, right now the credit markets also going through at upheaval. But for them actually there will be more opportunities in that as a lot of credit starts to move away from NBFC's, also starts to move away from Mutual Fund into the private credit funds. I think last part of this problem happened is because of the mutual fund's exposure to IL&FS because the investors at mutual fund are comfortable taking interest rate risk but not are comfortable in taking credit risk. So, whenever there is a credit risk like what happened with IL&FS Investors in mutual fund gets spooked. So, I think as a result of that the credit risk part of it, the credit risk and credit reward will decide then increasingly go towards alternative credit funds and that has been our hypothesis for many years and I think that hypothesis will get accelerated with this recent development in the market. In terms of liquidity, yes, we are all conserving liquidity, going slightly slow on growth and I think for the next couple of quarters, for everybody growth might take a backseat but on the longer-term it would not change much and fortunately everybody had good growth in the first-half, so a little bit of scaling back of growth in the second-half which to just adapt and adjust to the liquidity environment will actually be more prudent also. So, we have actually refrained from giving a very concretize guideline on what the real numbers will be. We do expect that Q3 - Q4 some growth shave off is inevitable because everybody is going to hold cash just be on the safe side. But I think once things come back to normal, especially given a lot of our growth in credit was coming from the retail side and we see opportunities on that. We see opportunity on wholesale but as we have always said wholesale will more and more be captured by the fund strategy and on other parts like Asset Management, Wealth Management, capital market insurance, we think there are no real structural changes as a result of this.

Dhwanil Desai So, the trajectory of 25% to 35% on a longer-term basis does not change with a fact that the quarter will be just say a couple of quarters you may soft on the both side is that a right understanding?

Management Absolutely.

Moderator Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah My question is largely answered but would like to know from you on the second-half what is the outlook considering the scenario that is prevailing and particularly which sector positive for the sector as well as retail wise and factor negative for the sector and Edelweiss should be kept in mind especially for the next 6 months?

Rashesh Shah: I think I have given the answer. It is the same thing. I think the next 6 months depending on how quickly things come back to normalcy, people will hold cash and actually holding cash is an expensive thing, right? Then estimate you are currently holding about Rs. 7,000 crore to Rs. 8,000 crore equivalent of cash and cash equivalents that is not a very profitable you activity. So, I think the next 5 months or

6 months growth will get shaved off I do not know how much because it depends on how much the markets come back to normalcy, how quickly they will come back and what happens, the interest rates and others. But I think, fortunately over the next couple of years, we also have some tailwind on our ARC business because ARC recoveries will happen and with recoveries, some carry and some incentive income will also come by. So, if there is some adjustment in profitability is one part, hopefully, it will get adjusted and that underscores or diversified model that we have. The same thing if at all, this real estate financing risk and everybody has been articulating, if it becomes real then ARC will have the opportunity because ARC will be able to fund some distress real estate projects and provide last-mile funding and all. So, our diversified model allows us that every challenge can also be an opportunity and every threat get converted into some part of the business will capitalize. So, I think as a result of this dislocation, ARC and our asset management the private credit business will clearly see some benefits and opportunities out of this.

Moderator Thank you. The next question is from the line of Abhijeet Sakhare from Goldman Sachs. Please go ahead.

Abhijeet Sakhare Sir, I had few micro questions on the alternatives business. So, just broad guidelines on what is the typical life of these funds are these typically close-ended funds? What is our contribution? Is it all in the form of equity? What is the fees structure like, what is the hurdle rate? And since, this is a credit fund how does the NPL recognition work? So, broad thoughts on these lines.

Rashesh Shah: So, these funds are usually structured like your private equity fund, they are on calling basis. So, you are calling money when you do the details and you also may not repay the money as the exit happens. So, it is like induction of private equity structure funds though you do credit strategies on this. So, they are usually about between five years to seven years, usually, our four years phase has a two year exit phase. But different funds, a different life, we also have funds with 10 years also. The Infra Yield Fund is a 10 year fund. We do not invest into the fund. The fund invests with us. So, when we do say an Rs. 200 crore detail and if at all, 20% is supposed to be ours then from our NBFC invest Rs. 40 crore as one credit deal and the same deal, the fund will invest remaining Rs. 160 crore. So, we do not invest our money into the fund, we fund co-invest on credit details along with us. But the fund operates independently, we have a formula that it will be 80%-20% or in some funds, it is 90%-10%; that 10% is our part of the deal and the other 90% is the fund part of the deal. So, different funds are structured differently, they are all co-investments because the investors in that fund, want to invest alongside us. They have seen our books, they have seen our strategy, they have seen our capabilities and they are saying that we want to alongside you, so if you are doing a deal and putting Rs. 20, want to put Rs. 80 along with that and participate in that fund strategy. And usually, on a fund we make a fee and carry off about 3%, about half comes a regular fee and the other half comes as a carry when you exit. So, as you exit, you have a threshold return there is a hurdle rate. And what you make about the hurdle rate, the hurdle rate is usually a rupee rate and whatever you make above that, you get a carry on that. So, on an average, you end up making between 2.5% to 3.5% annualized fees of that but you get half of that as a normal fee, management fees and other half comes as a carry.

Abhijeet Sakhare Okay. And the NPL recognition is like normal NBFC basis, right?

Rashesh Shah: So, on our part it is on NBFC side, an NBFC, the fund is like an AIF or a close-ended fund. So, it has no NPA importing requirement.

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Rashesh Shah: But the instrument will get valued if there is an impairment. So, it is not just NPA but NPA and loss given default, it gets adjusted in the NAV valuation of the fund.

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

Rashesh Shah: So, I want to thank all of you for being there I mean, there is so much that has happened since the last call we had. So, truly happy to interact with all of you, grateful that all of you have taken time also not only on this call but even offline giving us inputs, asking us questions and I would hope that we continue these entire actions. Please do contact us, me and my colleagues whether you contact Ramya, Salil anybody in our stakeholder relations team, we will be happy to get feedback from you but also answer your queries, whatever you have. Thank you very much

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