



“Edelweiss Financial Services Limited Q2FY2021 Earnings Conference Call”

November 02, 2020

MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Edelweiss Financial Services Limited Q2FY2021 Earnings Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Ramya Rajagopalan, Senior EVP, Corporate Development. Thank you and over to you Madam!

Ramya Rajagopalan: Thank you Bikram. Good afternoon everyone and a very warm welcome to our Q2 earnings call for the financial year 2021. As ever, we hope you and your families are safe and well. Today we have with us on the call Mr. Rashesh Shah, Chairman and CEO of the Edelweiss Group, Mr. Himanshu Kaji, Executive Director and Group COO, Mr. S Ranganathan, President, Edelweiss Financial Services and Mr. Sarju Simaria, CFO of Edelweiss Financial Services. During the discussions today, we will be making references to the Q2 results presentation uploaded on the exchanges and on our website. We do hope you have had a chance to review it and have it close by. Please do note that some of our statements on today's call may be forward looking in nature and hence may involve risks and uncertainty. Please read the safe harbor statement in our results presentation as well. With that, I will now hand the call over to Mr. Rashesh Shah to begin the proceedings of the call. Thank you and over to you Rashesh.

Rashesh Shah: Thank you Ramya. Good afternoon to all of you. A very warm welcome to all of you for this Q2 results. I hope all of you are safe and your families are okay. All of us are still managing in the middle of this COVID unprecedented crisis but thank you all for joining this call. Friends, as we had spoken earlier, the current year FY2021 given all the events that are happening in this year and what has happened in the last couple of years in the financial services space in India, is what we call a year of reset. I think India's economy is also going through a reset. We have had four years of slowdown, but a lot of changes with IBC and GST and now other reforms and the bank NPA, which have also come down, but then COVID happened. So there is a reset going on, not only a short term reset, but a medium term reset for Indian economy, but we do feel that this COVID is like a big reset for Indian economy and it comes at a final stage of this interim changes that have been happening.

Recently, we have seen the economy is going through a gradual phase of recovery and all of us have an opportunity to think beyond COVID, so we are also taking this opportunity to refresh and renew ourselves, our organization, and our business to become future ready. This quarter, Q2 has been as per plan. What we have said earlier, I think most of the things



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have gone as per plan as what we were intending to do. So on this call, I hope to give you some more color on what we have done, what we are going to do going forward and the four things I want to talk about is what is the progress we have made on the focus areas up till now. The second item is our balance sheet and how we are strengthening the balancing sheet and organization. The third is our growth and businesses and the update on that including the quarterly results and the fourth is environment and how on a long-term basis, we are getting ready for how we see the environment and how we are adapting to that.

So first on the progress on focus areas, we continue to focus on improving our liquidity and equity. As we have said that, things have improved a lot, but since we were already in motion of making sure we have fortress balance sheet, our debt to equity ratio has come down to 3.1 from what was 5.2 two years ago. So in two years, we have significantly reduced our debt to equity ratio. Our total borrowing at Edelweiss Group level, which were more than Rs.50,000 Crores have now come down to Rs.30,000 Crores. So almost a 40% reduction in the borrowing in two years and that has been a significant achievement. It has come at a cost, but I think it is very, very positive development. The D/E ratio has improved and will improve further when we close the PAG deal and I will give you an update on that. It is going as per schedule, but when we close the PAG deal and get approximately Rs.2,000 Crores of equity money in the next three to six months that will improve our D/E ratio, but also make us capital surplus and for us, I think getting ready for the next innings, one of the important thing is not just to have enough liquidity on hand, but to also be capital surplus because there is going to be a lot of growth in organization, especially financial services organizations, which are capitally strong will be able to benefit on that.

With PAG deal, we have demonstrated again that our idea is to build great businesses, have excellent management teams, and then with global partners scale up these businesses and create value so we have done that in our insurance venture. We have done that in our distressed credit venture. We have some fabulous investors in our asset management business also and now with PAG in our wealth management business, we have a nice business in insurance broking where we have a partnership with Arthur Gallagher from USA and that is also doing well. So I think our demonstrated capability to forge partnerships has also come of age and finally on the progress and focus areas - cost we have done well on that. There is slide 19 which gives you more color on that, how we have reduced the fixed cost by 23% and a lot of our cost efficiency initiatives including using technology and being more productive will start to show results only by the end of this fiscal year. So we do hope that FY2022 onwards, a lot these things we are doing will start to show progress. On the balance sheet side as I said we continue to improve CAPAD. You must have seen slide number six, which shows the capital adequacy and the solvency ratio across all our businesses, so our idea was that all our businesses should be very, very well

capitalized. So our 3 credit businesses ECL Finance, ERFL and EHFL all have capital adequacy of 23% to 29%, which you can see is very, very robust. Our asset management wealth business has very strong AUM. Asset management has got almost Rs.73,000 Crores. On the wealth management, we have Rs.1,33,000 Crores of assets under advice. For ARC, which has now Rs.2,000 Crores of equity has a capital adequacy of 34% and both our insurance companies operate at a solvency ratio of more than 200%, though they have grown very well, we have maintained solvency ratios. So slide five and six show you that we continue to make sure our entities or businesses are very well capitalized. Our liquidity position is also strong. You can see on slide 41 the whole liquidity, which is close to 21% of our borrowings. Friends, we have always said we will be between 15% to 20% of our borrowings as liquidity at any point of time. In the crisis of the last two years, we have tried to stay above 20% and I am happy that we are at 21% now, which is shown on slide 41, which is also a significant improvement because last quarter, we have almost increased our liquidity by 50% from end of last quarter to this quarter.

Our asset quality is still under watch though I think we have taken very proactive impairments and as you know a couple of quarters ago, we took one massive impairment and it was very painful, but we do feel that we are now fairly well covered and as you know NBFCs, we have to worry more about impairment than only about provisioning because provisioning is a NPA formula, which was applicable to banks and NBFCs earlier, but since NBFCs have moved to Ind-AS, it is very, very important that even if something is not an NPA, but we expect impairment, we should provide for that and that is what we have done. Our impairments are a lot higher than what NPAs would have been under the earlier structure and we do think we have bitten the bullet on that and hopefully, as the economy is improving, asset quality should also be adequately covered and lastly our retail collections have improved. Slide 27 shows how retail collections have come back, and this is across the board. I think all the banks we have seen there is a strong performance on retail collections across the board and that is good news because that shows the economy is coming back also. On Q2, we have shown an ex insurance profit after tax of Rs.28 Crores and as you know in our insurance businesses, we are still investing, so we expect to make accounting loss in our insurance business. So there is a consolidated loss; what are important metrics from an operating parameter point of view has been the ex insurance profit after tax, which came in at Rs.28 Crores and I will speak about it because it was important for us to get to break even and then start improving profitability via various things we are doing.

So we are getting back on track. Slide 14 gives us more color on that. Importantly in this quarter, our asset management business in alternatives where we are the leaders, we closed the special opportunities fund ESOP III with a fund raise of Rs. 6,600 Cr. This is the largest fund raise in this year in the private credit space and as you know a couple of years ago, we



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had closed our distressed credit fund, which was almost Rs.10,000 Crores, which was the largest distressed credit fund in Asia at that time and we are very happy to show that we have closed ESOP also in this quarter and this is demonstrating that in alternatives space, especially in private credit space, our leadership is very strong. Indeed, I am very happy that we managed to close this fund in the middle of COVID. As you know this fund takes almost 12 to 18 months to close and all that effort, we kept up the momentum even through the COVID situation and closed this fund. We have some great LPs, limited partners in this fund like OTPP and Florida Pension Fund and AP4 and all and that itself is a strong demonstration of our franchise in this business.

In our mutual fund business also it has been a great quarter. We closed the second tranche of Bharat Bond ETF and as a result now our asset management AUM on both alternatives and mutual fund is at Rs.73,000 Crores. We are close to \$10 billion and it has more than doubled in one year. So in the last one year, which is effectively almost a COVID year, in slide 11 you can see that we have doubled our AUM in the last one year in our asset management space, which has been a good endorsement. In the wealth management also we have seen a 24% Y-O-Y growth. Our assets under advice now crossed 1,33,000 and the wealth management business also has shown good profitability. From the retail credit also, we have started growing again. We have disbursed almost Rs.65 Crores in the MSME scheme and we have also started assigning portfolios. So we have sold more than Rs.500 Crores of mortgage portfolio because our approach in this business is to become asset light, but use our origination, under writing and servicing capability to build a robust credit business and we partner with banks and all to do this and on the retail side also this quarter a lot of our actions have got endorsed by that. The ability to assign portfolios, distribute, originate and MSME loans all that is strong traction on this and lastly ARC has also had a good quarter. We had more than Rs.1,000 Crores of recovery in this quarter and on ARC we continue to remain focused on recoveries. We are not yet building the portfolio. We have built a very strong portfolio between 2015 to 2018 and from 2018 till 2021 our focus has been stated as focus on revival and recoveries and making sure that these assets, we unlock values in them in the best possible way. I expect from 2021 onwards our ARC will start building portfolios again. We will start buying assets again and as we talk to banks and other NBFCs we are seeing that there will be a lot opportunities out there, but I think another couple of quarters when COVID is over and things stabilize, until then our ARC is actually sitting on a lot of ample liquidity, but we are not worried about it, though it is an earnings drag, we think this is not the time to build the portfolio, this is the time to work on the portfolio and that is what we are doing on our ARC. Our insurance companies have also had a very good quarter. Our general insurance business has been the fastest growing player in the industry in the first half of this year. You can see it on slide 39 and we are now at an annualized run rate of GWP of Rs.250 Crores, which for a two year old company and



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especially in COVID time, it is very, very gratifying and here we have built this business as a Fintech model, it is a completely digital model and since it is a new business in Edelweiss stable, we have been able to experiment a lot using technology and that has been very gratifying. The life insurance business ETLI also positive growth every month in this quarter. It is one of the only two companies to have registered positive APE growth every month in this year first half. So the last six months we have had positive growth. So COVID or no COVID our life insurance business continued to grow and has been only one of the two companies in the industry to show that. So in this challenging environment our businesses continue to do well and from a future outlook point of view, I think we are focused on being very resilient and fortunately, the India economy is also showing strong signs of come back and for us that is very important. September has been a good month. Even October has been a very good month for the economy. So we do think the economic recovery is underway. A lot of things RBI and the government did have been very, very helpful from the MSME, Atmanirbhar Bharat Scheme to the liquidity injection. So I think a lot of things are starting to fall in place. Global environment is also improved. So I think real growth will start coming back couple of quarters down the line, but the U turn has been made and even on Edelweiss, I do think that last couple of quarters have been very difficult. The last couple of years have been very difficult, but we have made the U turn and our priorities will remain becoming more asset light, reducing debt, improving on cost efficiencies and strengthening organization and the business is becoming more independent. In the last two years, we have made sure that all our businesses are becoming more and more operationally independent. So all our businesses have the best of both the worlds. They have the Edelweiss umbrella and the group support and the hand holding and the common brand and all, but they also are operationally independent, and governance independent. They have their independent boards. They are very well capitalized. So we have tried to achieve the best of both worlds for our businesses so that they can compete in their individual space and become stronger.

Other update on the EWM deal with PAG is making satisfactory progress. We are filing for all the regulatory approval and it seems to be on track. We will continue to focus on profitability, as I said we have got to about break even, but we need to work a lot more and the focus will be on reducing cost of borrowing. Our cost of borrowing has gone up by almost 100 basis points in the last 18 months while actually interest cost in India has come down by almost 200 basis points. So even if you take an average reduction of 150 basis points, which should have happened on a Rs.30,000 Crores borrowing that is a Rs.450 Crores delta for us. So we have to work on that.

Now as liquidity has improved in the last two years, for the first time we have started saying no to bank lines. We have started renegotiating rates. In our housing finance a few term



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loans have been reset. Interest rates recently have been reset. So we remain optimistic on our ability to reduce the cost of borrowing. That is going to be one important area. I spoke about the operating cost. We are becoming more efficient on that and as we get the equity that comes in when we close the PAG deal on Edelweiss Wealth Management even that equity will reduce our cost of funding, our interest cost and will also help on profitability. So I think these are the focus areas. As I have said last two quarters, a lot of heavy lifting has been done. We have taken the impairment that was required. COVID has fortunately not played out as bad as we all thought in April, May, and June, but it has had significant impact, but has also allowed all of us to reset. So most of our businesses are doing well except NBFC where last two years we have seen a reduction in growth and value reduction and scale has come down in the NBFC business like it has been for many others, especially in the wholesale NBFC space. Our asset management, wealth management, insurance, ARC business all this continue to create value and I think our focus on being truly a diversified financial services company having this multiple businesses, making them independent, having their independent equity capital, balance sheet out there, but providing them group support and all the strengths of the group, but making them operationally independent has actually come long way in the last six months also. So along with that we will continue to do that. We need another two quarters of real hard work on improving profitability. Our target was originally always been first liquidity, then equity, then profitability, and then growth. So I think the first two we remain comfortable on equity and liquidity. Now we want to get to profitability with all this cost efficiency items we have been speaking about and eventually I think March 2021 onwards we hope that growth comes back, and a lot of our businesses see a lot of growth ahead of them. So along with that I would once again thank all of you for being on this call and we will now open for Q&A. Over to you Ramya.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Kshitiz Prasad from Maybank. Please go ahead.

Kshitiz Prasad:

Congratulations on a good set of numbers. Two questions I have. One is if one can share the breakup of the loans in each of the category. Last quarter it was given in the presentation, how much is mortgages, how much is corporate loans, loans to real estate breakup? The other question I wanted to ask was if I may understand the entire equity capital raise the process over a period of time since the liquidity crisis in different businesses and the restructuring of the businesses? Now ARC is not part of the asset management? It is a separate entity all together? So may I assume that all these restructuring and external capital raise in the form of equity is more or less over as now the business strategy is going to be more on profitability and sustainability? We see that the operating profit levels we have



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made a profit, so what is the view and what is the strategy going forward, that is my question? Thanks.

Rashesh Shah:

Absolutely I think on the first question you know whether ARC is part of AMC or not. As you know, all these are independent entities. If you see one of the slides, slide #6, we have given all the independent entities, because these are the legal entities, so ARC is always a standalone company because it is like semi-NBFC and semi-asset manager in that sense. If you see all are NBFCs, Edelweiss Housing Finance which is a HFC retail finance, so when we present numbers, we present it for convenience and ease of understanding for the investors, but we are increasingly providing detail of each individual entity, so if you see that slide #6, there effectively eight entities out there and in fact even EAAA is an alternatives and AMC is the mutual fund which are also two entities, so the way Edelweiss run all these entities are independent, they are run independently, because that is what is required by law also like as you know mutual fund has to be an independent entity and ARC is an independent entity and insurance company is independent entity, so for sake of ease of investor presentation, we will group it and all, but all this will be run independently and a lot of investor's feedback came to us that ARC and asset management was confusing them because they saw ARC as a balance sheet business while asset management was purely asset management and based on investor feedback, we are providing numbers, but if you look at our annual report or you look at our investor presentation, we are increasingly showing it at entity level, because I think grouping is more for presentation convenience, the way they operate is they operate as independent entities with their own boards, a lot of them have their own investors also, but they get all the support from the group, they get all the assistance even liquidity management and all group helps out, because group always has a little bit of excess liquidity that can be provided, so we do provide some amount of group support, but most of the businesses are very, very independent and if they were operationally independent say 40%, 50% three, four years ago, now they almost 90% independent. They are a few common things across the group level and as you correctly said, I think with this when we close the PAG deal and we close EWM then we become capital surplus so most of the equity raising is more or less over, because as you can see our entities are fairly well capitalized, they do not need capital for growth. As you would have seen in the P&L, the corporate is making a loss, because we have borrowed money in the last two years to fund a lot of needs, especially liquidity needs of the group and all which with this equity raise also goes away. So if you raise Rs.2,000 Crores the interest cost saving on that will be Rs.250 Crores odd a year and that is the current drag, so I think as we improve our cost efficiency even without coming back to growth a lot of the profitability will start coming back and once growth comes in then obviously profitability can be improved further. On the breakup, I thought there was a slide which gave the breakup of the



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assets, but I will get may be Ramya to refer to the slide. Which is the slide Ramya where you have the asset breakup? if it is not there, we will be happy to send it across to you.

Kshitiz Prasad: Thanks a lot.

Moderator: Thank you Sir. We have our next question from the line of Saket from GrowthX Capital. Please go ahead.

Saket Lohia: In the consolidated results in the revenue from operations, we have net gain on fair value changes as Rs.423 Crores, could you explain a bit about the same please?

Rashesh Shah: This is largely as you know, we have taken impairment last quarter and all because a lot of this on the securities or bonds and others a lot of loans are held as securities and investments and all, especially at a group level, so under the Ind-As we have to mark to market every quarter up or down, so this keeps on changing at an entity level, so lot of these must be at entity level which gets consolidated like we have lot of SR, security receipts in the ARC, we hold a lot of security, we have a lot of derivatives contract, so may be our CFO SR can explain it is a very may be technical issue, if you need offline some more details entity wise and all he can provide it to you.

S Ranganathan: More than happy to take it offline, but as Rashesh did talk about it, it is all kinds of instruments largely derivatives and all those gets reevaluate periodically and this is the net result of all of that.

Saket Lohia: Fair enough Sir, I will take it offline on that. Second, in the distribution of earning across business in your presentation, you have mentioned BMU and corporate heading wherein we have provided for some loss, could you please explain on that thing, because all your businesses has been in the profit except the insurance part and in this simple heading BMU and corporate you have \$20 million as loss in the slide 14?

Rashesh Shah: That is an important question, because this is the last part that we need to clean up, so what has happened in the last two years as the liquidity crisis became more stronger, as you know we have been holding excess liquidity and some of the excess liquidity, we are holding it at a group level and we have also borrowed money at a group level just for emergencies and all that, a lot of this is also resulting in an earnings drag and I think my estimate has been that we hold about Rs.3,000 Crores to Rs.4,000 Crores of excess cash in the balance management unit and all and there is a earnings drag on that. Second, because we borrowed money in anticipation of this equity raise that we wanted to do sometime ago, so part of this what we have borrowed will get repaid as we get the PAG deal close and Rs.2,000 Crores

of equity comes in, so we had borrowed money just to be on the safe side and provide liquidity, but our idea was to replace it with equity which is where we have done the PAG deal, as I said earlier, Rs.2,000 Crores effective equity raise will itself help us reduce interest cost at the corporate level by Rs.250 Crores and the other is as we have been making the business is more independent, there was a lot of cost at the center, because the center was also providing lot of services , a lot of that also we have started to unwind as we made the businesses more independent, so we expect that BMU and corporate once we close the PAG deal should become break even and that is how it should be, but for the last two years, we have been holding a lot of our excess liquidity, we have been borrowing extra through structured mezzanine funding and all to just make sure at any point, we have a couple of Rs.1,000 Crores at a group level available so that we can cater to needs of any of the group entity and that was something if you remember about a year ago or so we say that we will continue to do that just to provide a liquidity backstop because unlike a lot of other corporate groups, we are not a business house, so we do not have any group treasury or group other businesses to be there, so EFSL, the holding company and corporate center has to provide for that and we took that at an abundant caution, it has cost us profitability and my estimate is that currently we have about Rs.400 Crores of cost at the BMU level which is being incurred for all these, which should go away once we close the PAG deal and basically rationalize the structure and that should allow us to get to break even at the BMU level, because the other businesses are now in a fairly healthy place, the businesses have got to decent stage, now we have to make sure the BMU and corporate also get there.

Saket Lohia:

Thank you so much for answering these queries. I would only request one thing, your presentation is quite detail, but if at all small, small notes could be provided on these important loss aspect or impairment aspect just like in results we have Rs.400 Crores of fair value changes and as an analyst we have to understand what exactly it is, it is major part of the overall revenue if we see, so all these will help the understanding and having a better understanding as well.

Rashesh Shah:

Absolutely I think a lot of this feedback is helpful and a lot of details we have given in the presentation has come out of the feedback only, because we are also in a transition phase, earlier people saw Edelweiss Financial Services as an operating company, but the fact is that we are clutch of businesses and all these other underlying entities and unlike bank which is one entity, which is everything consolidated and in that, EFSL has no operating activity, but we have all these underlying businesses so lot of this fair value changes may happen in ARC, may happen in the NBFC and all, so how much detail at an entity level we should give is what we are trying to also workout, so any feedback on that will be important, because this is not at one company level, this is an aggregation of eight or nine underlying entities.



- Saket Lohia:** Thank you so much Sir.
- Moderator:** Thank you. We have the next question from the line of Aditya Jain from Citi Group. Please go ahead.
- Aditya Jain:** Total stock of provision, we disclosed in the last quarter across stage one, stage two, stage three was Rs.909 Crores, so where is that now, how much of that would you call as the buffer, how has the buffer being used, if you could just talk about that?
- Rashesh Shah:** SR, do you want to answer that?
- S Ranganathan:** The total provision today stands at about Rs.1,000 Crores, Rs.909 Crores that you are talking about, today stands at Rs.1,041 Crores.
- Rashesh Shah:** And again Aditya as we earlier said I think for us provisioning is not the only think we look at, we now look at total impairment and one of the things we all have to get use to is the Ind-AS especially on the wholesale side, on the retail side still the provisioning and the impairment fairly overlaps with each other, because it works at a portfolio level. At a wholesale level, it works at a very account by account, it is a very idiosyncratic kind of behavior, so as I said last year, we took a fairly big impairment and what we look at is impairment, so we do not look at only provisioning, because provisioning is only one part of that, because only those accounts which are NPA, but there are lot of accounts where we have marked down, we have sold to ARC, we have taken the impairment, so for us impairment is a lot, lot more important than just the provisioning, so if you want maybe Ramya and SR can organize meeting with our NBFC team who can give you details on how to understand the provisioning and the impairment part of this.
- Aditya Jain:** Secondly on the wholesale book fell down, you mentioned at one place in the presentation, another Rs.2,000 Crores will be sold down, could you talk about how much additional provisions are we still carrying and what is our expectation of hair cuts on buffer provisions that we have are they enough?
- Rashesh Shah:** Again on a wholesale book what we did in the last two quarters, we think we have marked the impairment as required, so even when we want to sell there would not be any additional impairment, we will have to take for the selling part of it. There are some accounts where COVID related movement will happen, some accounts which are individual accounts, but we do not think those will be significant numbers, because we anyway have expect to provide about Rs.400 Crores odd on the wholesale book every year, so I think it will remain in that range only may be Rs.100 Crores here and there, but a large part of the impairment



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that we have to take because of the last two years of slowdown and the accrued interest and all of that is what we have already taken is what I would estimate.

Aditya Jain: Lastly on the real estate project which we lend to could you talk about the sales how they are versus pre-COVID level and how is the construction activity right now?

Rashesh Shah: It is interesting that you asked that because we have all been very positively surprised how well the real estate market has been recovering especially in Mumbai and Maharashtra partly also because the stamp duty concession given by the government, partly was the pent up, partly it just this may be the behavioral economics part of it about people working from home and buying homes, but August, September and October have been phenomenally good in terms of sales and sales and project progress usually goes hand in hand. We have started seeing a lot of the projects which were stuck have found new developers who are showing interest to get them up the ground, some were stuck have started moving again, sales have started a lot of projects which were 80%, 90% completed but needed some sales to be done to get the last mile funding and all at least eight or nine projects we have seen some significant traction on sales on those kinds, so I think sales performance has been fairly good and if sales is good then usually project progress happens automatically, pricing is still slightly soft I think on an average pricing is about 8%, 10% below the pre-COVID times, but the volume uptake has been very, very strong. In fact it has been much stronger than we would have expected, I think August, September, October has been the best sales volume that we have seen in a lot of projects that we have seen in the last two years. Since 2018 there has not been this kind of momentum and a lot of developers we talk to especially established developers they expect that by 2023, 2024 a lot of inventory will go away, so they need to start building inventory, so there is a lot of interest from established developers in brown field projects or projects which are stuck and all. So we remain optimistic. I think as the economy recovers I do think real estate will also lead the way, but important is to get the projects completed, which requires either a new developer and/or sales to happen and/or some last mile funding, but all three have got easier in the last three, four months.

Aditya Jain: Thank you.

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

Jignesh Shial: Thanks for the opportunity. After a long time, now I am hearing very positive commentary from your side, so basically 2021 seems to be a consolidation year and then 2022 onwards we will be seeing a growth coming up, so do I know that this year is more or less we are going to concentrate, which are the areas that you started identifying for the growth, more



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importantly on the retail side and then on the wholesale side what could be the growth strategy that you are going to take it forward for the next year that is my first question?

Rashesh Shah:

I assume you are asking about credit, but we are seeing growth in other sectors also, so in credit I think retail as I said mortgages as well as MSME loans, we have started disbursing in this quarter again in a significant way, we were always disbursing but smaller amount, now we have started stepping upon that in fact Edelweiss Housing Finance is currently sitting on a liquidity of almost Rs.1,000 Crores. We have Rs.1,000 Crores of ample liquidity out there, but we want to be asset light and efficient, so we want to rotate that money, so we are originating but the old book we are selling down, because we are finding a lot of banks, we need to buy portfolios at the cost of 8%, 8.5% which is actually cheaper than our own borrowing cost, so rather than borrow and grow if you would rather sell down assets, so I think we are going towards an AUM concept on that side, but we are seeing a lot of traction on that, we invested a lot especially on MSME, on data analytics all of that and even in the last few months, we found even DSA partners who were earlier not as technologically agile, become very agile, thanks to COVID and all, so we remain optimistic on that. On wholesale credit, we will do it via the asset management format. As I said we raised Rs.6,600 Crores structured credit fund, we have Rs.10,000 Crores distressed credit fund out of which about two-thirds is invested, but almost Rs.3,000 Crores, Rs.3,500 Crores is dry powder on that, we also have real estate credit funds, where we still have about Rs.1,300 Crores, Rs.1,400 Crores of uninvested money in that, but as we have said in NBFC, the problem on wholesale credit is not just credit cost that you can take it and it will go through cycles and all that, but the problem is ALM and last two years we saw that the value destruction because of ALM management either by holding excess liquidity or raising expensive capital because things can be very uncertain on cash flow on the wholesale side and hence it should be run in an asset management format, so we are moving the wholesale credit business to asset management and we have been doing that, we have almost Rs.25,000 Crores of AUM in private credit space and we think a lot of the NBFCs and banks wherever long term structured flexible credit is requirement, whether it is distressed or structured or Holdco financing, a lot of that is very profitable, but should be done without an ALM risk and hence NBFCs will not be able to do it, but it should be done in a fund format. So wholesale we see growth, we have just closed a fund and we expect to we already see a good pipeline. In our asset management business, we have done four or five deals in the last couple of months and we expect to keep on deploying money on good quality credit opportunities in our asset management business on the wholesale side. Outside of that as I said last one year, the AUM of asset management has doubled 100% growth in one year and I think in between all this NBFC noise, a lot of this has got drowned away and same thing on the wealth management, we are still seeing 25%, 30% AUA growth and as you know with all these COVID and all, I think the entire wealth



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management space is doing well plus with now PAG as a partner, we have lot of capital available in that business which will also allow us to scale that up and insurance also has been doing well. So we remain optimistic. If you look at the last two years, the only part of Edelweiss that took a lot of attention away was the wholesale credit business. Now there we have reduced the book, we have increased liquidity, we have taken impairment, we have done all that was required to be done and that opportunity is now going to be captured in an asset management format, so will not present any balance sheet and P&L risk to us. So I think a lot of hard work has been done, we need another couple of quarters of just being focused on all these but given where we are on liquidity and how the businesses have been strengthening, I remain optimistic.

Jignesh Shial:

My second question is you have already mentioned that the overall liability franchise right for Edelweiss has been improving now, we are re-negotiating rates and all, so overall if you can throw some more light over this and more appropriately what kind of, because we had already seen opex advantages are coming in, so what kind of margin advantage which you will see, the cost of fund advantage we can see, probably not immediately, but over a period of next three or four quarters or probably down the line what kind of advantages will be coming up, so if you can throw some light and the thirdly and lastly what kind of ROA profile for Edelweiss you are seeing it up a bit to a long period of time, so if you can...

Rashesh Shah:

From the first one as I said our cost of borrowing in the last two years has gone up by almost 100-basis points so that and as you know interest rates have come down in the same time, so ideally it should come back we have also reduced utilization of commercial paper, we have done more long term borrowing, we have made our ALM very positive, so we have more longer term liabilities than assets in that sense, so all these has resulted in increased cost of fund, as things normalize and as we become comfortable, we will not take risk on this, but we do think that getting – because in the same time that our cost has gone up by 100-basis point, the actual interest rates have come down by 200-basis point, there is almost 300-basis point delta that has impacted us, so we do not expect to claw back the entire 300, but if you can claw back 100-basis point that is equal to Rs.300 Crores of saving on interest cost and as I said the equity we are raising another Rs.2,000 Crores when we close the PAG deal will also result in interest cost saving because we are not going to use that for anything else but repay the loans which are already there will also save. So I think in the next one year, if you can save about 500 to 600 cost of interest both by deduction of rate and by this equity raise that happens that will improve the profitability further and along with that I think we do feel that the markets are improving as we are also reducing our borrowing, the borrowing efficiency will improve, so I would focus on that.

Jignesh Shial:

Roughly what kind of ROA trajectory we will be seeing?



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Rashesh Shah: For Edelweiss, there will be no because Edelweiss is a combination of all these businesses, there is no concept of ROA on asset management or wealth management or the insurance. Our ARC has been working on ROA of about 5% to 8%, but obviously it is not geared very much, but ARC can make between 5% to 8% ROA that is what you will see in the investor presentation also. I think our retail and MSME credit mortgages will aim between 1.5% to 2.5% ROA which will be a combination of balance sheet plus the sell down which we do, but we do think getting to about 2% average ROA on the retail credit opportunities that we are pursuing should be possible, but not being very heavily geared, so we will not be geared more than three, four times, so we do expect that ROE on the credit business should stabilize at about 12%, 13% plus whatever you can make via cross sell and all and over and above that is what we should aim for. So again credit will be only about one-fourth or one-fifth of Edelweiss, we have asset management, wealth management, insurance, ARC all these also and increasingly last two years, we were seen as an NBFC, Edelweiss Financial Services became seen as an NBFC, but we are much more than NBFC, NBFC is the business we have, but we also have some very robust businesses outside of NBFC business also and I think our idea would be to constantly articulate that and communicate that and showcase that to all investors.

Jignesh Shial: Thanks for this and all the best.

Moderator: Thank you Sir. We have next question from the line of Vivek from DSP Mutual Fund. Please go ahead.

Vivek: Good evening Sir. This is Vivek here. I hope you are all well Sir. Couple of questions, one on the asset side and couple of liability side, on the asset side, it is good to know that there is good momentum in the real estate sector, I just wanted to know in terms of whether you can quantify for our portfolio, ECL finance portfolio what percentage of projects will have in OC or expected high level of completion over the next six months so that we can see cash flow from there?

Rashesh Shah: Our current wholesale book is such because wherever we had which were not late stage project, early stage projects and all, a lot of them we have either as you know we sold it to funds in the last two years, we did a deal with Meritz and then we did one deal with SSG and Farallon Capital recently plus we have sold some accounts to ARC, because we have found that debt is where you could actually restructure the projects, getting a new developer, because those projects as you very correctly said, the project which are in the earlier stages need some handling, projects which were in the later stage needed last mile funding and sale support, so I think a lot of the accounts under NBFC today we have should be getting to closure, they are still some early stage accounts are there and there are some

accounts where the project is there, but the collateral is that project plus the phase 2, phase 3 also so you might very often see phase 1 as close to completion, but phase 2 has to be started and for that also there is a equity required, so it varies from project to project, but our expectation is that we are not as dependent on cash flows because we have got our ALM fairly matched in a very conservative way, so as long as the ALM is matched and our book size is fairly small now, I do not think at best in a year the cash flow if at all projects gets delayed a little bit will be about Rs.500 Crores or Rs.1,000 Crores a year which we have already kept adequate liquidity. It does hurt profitability, but as I said we have been fairly conservative though we are recently seeing things are improving, so I think we go project by project, we have about 48 projects which are under watch that we closely monitor and this 48 projects I think we remain optimistic at least on 40, 42 of them that we have answer either a new developer or a new sales strategy or some last mile funding and all and a lot of this 48 projects already either in the ARC or in the fund and as I said, we want to increasingly do this in an asset management format, because we do think that our ability to recover, our ability to complete projects and all is high, because we come from ARC expertise also, so we should be able to complete the project. The problem last two years if you ask me what has worried me more was not recovery or cash flow from the project or the credit cost in a particular account, but it was more ALM risk because if three years take four years or five years we may still end making a good return, but your ALM goes for a toss and that has been a larger part of the problem because of that we had excess liquidity, we have to scramble to sell assets and put them in a fund structure so lot of the effort was to get the ALM risk and I think it is a larger structural problem, I think Vivek you understand this more than all of us, you have seen banking side, you have seen the mutual fund side, I think ALM risk is the hardest for a non-bank to manage and if you have the large business house up to a point you can manage it, but I think most and even what we see in the mutual fund, when the bond redemptions and all started creating a problem, it was an ALM risk ultimately. So I think the non-bank financial credit sector in India has to overcome this ALM problem, because there is no real lender of the last resort as RBIs for banks, for the bond market or for the NBFCs and hence I think NBFCs will have to now become more and more agile on the ALM side, at least on our side, Edelweiss we will remain more and more agile because having gone through this last two years we have learnt a lot, we have also understood how to do it and even if it comes at a cost of some profitability or some growth, I think ALM is going to be the most important part of how we manage the future.

Vivek:

I know you have been putting into place lot of initiatives like co-originations and I am sure that will bear fruit and second question is on the liability side, in terms of liquidity we know the group level, is it possible to share how much liquidity is there in ECL finance in

particular, because I think that is the main borrowing entity and whether all the liabilities of ECSL has been redeemed?

Rashesh Shah:

If you see we have given entity wise liquidity also, if you see slide #22, ECL finance has got Rs.2,400 Crores of liquidity in fact ECL finance has excess liquidity, if you see on slide #22, we have also bought back bonds of almost Rs.500 Crores in this quarter, so we have started buying back bonds also, not long term bonds, because we do not want to really change the ALM, but any bond which is redeeming in the next one year to 18 months, we are happy to buy it back and we have been buying back, we have also disclosed it in the investor PPT and we have shown liquidity for lot of other entities also if I remember, we have liquidity in retail finance and housing finance of almost Rs.1,000 Crores, in our ARC also I think we have shown liquidity that we have, ARC has got Rs.670 Crores it is on slide #33, so we have given entity wise also, so you can add up to entity wise and then whatever is the balance is at a group level. So at a group level we have about Rs.1,500 Crores as I said we maintain Rs.1,500 Crores to Rs.2,000 Crores of liquidity and with this EWM deal getting close with PAG all that will come to the group including ECSL and all of that, so I think we remain comfortable both on equity and liquidity side because we have planned in advance and in April itself we started working on the stake sale in EWM at the start of COVID and we have gone through with it and is going as per schedule because our idea is to be comfortable on both liquidity and equity, so Rs.2,000 Crores will come to the group which is ECSL and the group entities and all these operating entities, they have enough liquidity as you can see in the presentation. If you need any more details will be happy to provide, but we have I think details against each of the entities has you go through the PPT.

Vivek:

Good luck and I hope real estate sales continues and I think we need it

Rashesh Shah:

As I said Vivek, for us I hope it improves and I do believe it will improve, but now the last part of heavy lifting is done so one year here and there in recovery may be Rs.500 Crores extra impairment here and there, it will not be a make or break for us, because NBFC today if you look at the value of Edelweiss, value of our wealth management business or asset management business or ARC business, our insurance businesses, our insurance broking business, our housing finance business and lot of that are intact, they are insulated from all these and ECL finance has enough liquidity, so to make sure that even if the real estate market takes some more time, because we have proactively done all these, we have also sold assets to AIFs and funds and ARCs and all so we have done this proactively, so we have holding power now, what we have done is at a cost to P&L, we have strengthen the balance sheet, but also built holding power. Two years ago a large part of Edelweiss value was seen in the NBFC and the ARC. Now in the last two years, the way wealth management, insurance, asset management all of them have grown we are truly diversified,



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so even if the wholesale credit book takes a longer time given that we have provided, we have more than ECL finance capital adequacy is about 23% now which is the highest it has ever been. In the history of ECL finance, these are the highest capital adequacy, we have ever had. So liquidity is ample, capital adequacy is ample, we have holding power, yes, we have to work on profitability now.

Vivek: Thank you so much and good luck.

Moderator: Thank you. We have next question from the line of Jitu Panjabi from EM Capital Advisors. Please go ahead.

Jitu Panjabi: I wanted to ask in terms of the next six or nine months, are there any areas where you are working with equities stake reorganization coming up directionally?

Rashesh Shah: Important one is that Edelweiss wealth management as you said our idea is that we complete the stake sale to PAG and make this business independent, we have been working on that and then eventually demerge and list this company and basically unlock the value for the shareholders, so we remain committed to doing that for the wealth management business. I think eventually our idea is that Edelweiss is very good at building businesses, but with this stakes sell and all has enough cash flow to do all the things that we need at a group level, so our focus will be unlocking value in the most tax efficient and the most efficient manner for the shareholders, because one of the good things about Edelweiss is even today more than 40% odd of the company is held by the management team, so everybody is incentivize to think like shareholder of the company and the best way to unlock shareholder value is to demerger or distribution of shares or dividend or buyback, we will continue to evaluate all those options in the most efficient way, but our idea is we can build businesses, we can get partners, we can release capital and then what to do with the capital either we can distribute it to the shareholders via shares and demerger and all or we can use it to invest in businesses, currently next two, three years, we do not think we will start any more business, all the current businesses we have got enough growth opportunities in front of them, so our effort in the next two to three years is to truly make Edelweiss diversified. As I said two years ago we became heavily concentrated as an NBFC as an ARC, NBFC and ARC contributed to almost 75% of our profits at that time, now obviously, our asset management, wealth management even the insurance businesses have grown, in fact if you see slide #7, the fee income has been very robust, so our management fee income has continued to be around Rs.400 Crores, used to be closer to Rs.500 Crores it is still Rs.400 Crores, so we do expect that Rs.1,500 Crores to Rs.2,000 Crores of fee income itself is more like an FMCG business, because this is fee income, this is not interest income and very NBFC dependent. So we truly have this fee income franchise also that we



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want to capitalize on, and we will continue to take feedback from the shareholders and do whatever is there to unlock values. So our focus remains on creating value, which we have shown even the EWM, deal with PAG you can see Edelweiss over the years has invested only Rs.300 Crores in that business and if our stake is worth Rs.4,000 Crores that is a fairly good value creation that we have achieved, same thing on asset management we invested only about couple of hundred Crores up till now. In ARC, we have invested only about Rs.400 Crores and our stake today at book value is worth more than Rs.1,300 Crores, so idea is that use a little bit of capital, lot of management skill set, build franchise and build good businesses and then partner with best in class partners and that is what we continue to do and after that how to unlock value we will be always open to suggestion, but we will think like the shareholders. So I think asset management can it also be spun off in a couple of years that should also be a possibility, can we do the same in insurance, we can do that, our idea is to build businesses and then unlock value in that.

Jitu Panjabi:

Thanks a lot. Wish you all the best.

Moderator:

Thank you Sir. Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Ramya Rajagopalan for closing comments. Over to you Madam.

Ramya Rajagopalan:

Thank you Bikram. Thanks to all of you who found the time to join us for our Q2 conference call right in the midst of busy result season. We still have a long question queue but have to end because of time. Please contact me or my colleagues if you would like to discuss anything further or need more information and from all of us at Edelweiss, our very best wishes to you and your family for the holiday season. Thank you very much indeed.

Rashesh Shah:

Okay, everybody, thank you for being there.

Moderator:

Thank you very much Sir. Thank you, Madam. Ladies and gentlemen on behalf of Edelweiss Financial Services that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.