"Edelweiss Financial Services Limited (EFSL) Q3FY21 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Edelweiss Financial Services Limited Q3FY21 Earnings Conference Call. As a reminder, all participants' 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 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 Ms. Ramya Rajagopalan, Senior EVP, Corporate Development. Thank you and over to you, Madam.

Ramya Rajagopalan: Thank you, Raymond. Good Afternoon everyone and a very warm welcome to our third-quarter earnings conference call for the Financial Year 20-21. Today, we have with us on the call Mr. Rashesh Shah, Chairman and CEO of Edelweiss; Mr. Himanshu Kaji, Executive Director and Group COO; Mr. S. Ranganathan, President, and Mr. Sarju Simaria, CFO of Edelweiss Financial Services Ltd. We hope you have had a chance to review the presentation that we have filed with the exchanges, during the discussion we will be making references to it. We do also hope that you will take a moment to review the safe-harbor statements therein. We will be making some statements today that may be forward-looking in nature and hence may involve certain risks and uncertainties. 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, and a very warm welcome to all of you. Good Afternoon on this third quarter FY21 earnings call and good to have a lot of you back. I just have a few opening remarks, but as you know what is the more interesting part of this call is the question and answers, so I do enjoy the queries that many of you pose and I do look forward to interacting with all of you, but thank you very much for being here. There is lot of fireworks going on in the market, in the India-England cricket match and all, so to take time out on this call, we are all truly grateful for that. As you know, India's environment has improved a lot since we spoke last. I think the last quarter has been an amazing comeback quarter for the Indian economy and we have had a fairly turbulent period for the last couple of years and this seems more like a beginning of the end of the turbulent period. For us, at Edelweiss, this was a quarter as per the plan that we had started off with.. We ended up with an Ex- insurance profit after tax of 2 crores, but many pockets saw strong growth in our businesses and this is a quarter where actually our diversified business model has been highlighted once again. So friends today I want to talk about four things: Our balance sheet, Asset Quality, Growth, and Profitability. We have a lot of details about individual businesses in the investor PPT we have, we have lot of data out there, but these four are the most important aspects of our strategy. So first on the balance sheet, as you know since we are a diversified company, it is not one entity, but we have close to 10 business entities in which we run our businesses.

Our focus was on strengthening the balance sheet, for the group as a whole and for individual companies also and our whole focus has been on consolidation, fortification, and strengthening. First was liquidity, so all our entities are at very comfortable liquidity thresholds as well as the group as a whole. We are currently carrying liquidity of about 21%. I know liquidity has become unimportant in the last three or four months, the environment has improved and liquidity has become easier, but I think since last two years we have been focusing on that, the idea is to now

ease off on excess liquidity slowly and steadily by using it for growth. A lot of liquidity was being held up for emergency use rather than for growth in the last couple of years especially after COVID. Also at group level because as we have spoken earlier, one of the areas we have is the balance sheet management. You need the corporate BMU unit because we are holding more than 2,000 crores of excessive liquidity which is like fungible capital to be used by anybody in the group. Because when the crisis started, we made sure that we had enough capital not only in the businesses but also at the holding company level that was available to any business if they needed.

Fortunately, this insurance was not used by anybody but it was good to have this insurance in the last two years that all our businesses had some assurance of fungible, flexible liquidity available by the corporate if they needed it. This obviously is expensive liquidity and as we have spoken earlier is costing us about 250 to 300 crores a year. As things stabilize and as we close our PAG deal on WM, this holding excess liquidity cost should also go away and we will now start easing off on excess liquidity and use it for growth. On equity, our capital adequacy ratio for all the credit based businesses are very strong. We have more than 25% capital adequacy in all the credit-related businesses, we range from 24% to almost 38% in all our businesses. As we have become more independent in each of the business and made them ring fenced, some businesses do have excess capital, but that is alright because we want to make sure that capital can be used for growth. The group level debt-equity ratio has come down to 3x. At the peak we were at 5.2x which seems like a long time away. We have more than 8,000 crores of equity and as you know with the stake sale in WM, the equity will only go up so all the businesses are ring-fenced, well-capitalized, and independent. That gives us a huge leeway for growth because now each business can grow on its own and we have in our investor presentation, how much equity each of the businesses have, what stage of growth they are, we have elaborated that.

We also have some equity in our NBFC which we raised from CDPQ and in our Edelweiss Wealth Management Business from Kora and Sanaka. A lot of this equity is currently in the form of compulsorily convertible debentures, but we are also paying interest on that. Actually, even that interest is costing us about 130 to 140 crores a year, but as they get converted, this interest cost saving will also come. So I think the last two years have been a very, very different year where liquidity and the cost of liquidity is still hanging heavily, but as environment is improving it should start getting lower. So capital adequacy is very strong. Our insurance businesses also have strong solvency ratios, so they are growing very well, we still have maintained very high levels of solvency out there. On asset quality, the environment plus the degrowth of the last two years did put a lot of pressure on asset quality as all of you are aware, but now I think we are fairly well provided. Our wholesale book is fairly marked down to appropriate number.

We are still being very conservative in accruing yields. So on a wholesale book especially, accounts where there is a lot of workout required, we have marked it down but we are still not accruing yields on that and our approach is that though the projects are viable and the collateral will make sure we get repaid well as these projects become live and they go towards completion and then generating cash flow, we will start booking yields at that time only. So I think in the

wholesale book profitability is about a year away, but the impairment and the markdown has been done. In fact we are fairly well provided for our current provisions that we carry are more than enough and we hope that as environment improves, we should get some flow backs that comes back on the provisions that we have made. Our retail credit portfolio has performed very well through all the COVID period. We have about 3.5% Stage-3 assets in the retail portfolio, collection efficiency is now at 93% and we have had no interest reversal in this quarter because we have always accrued interest very conservatively. We have also not used up any COVID provisions and overall we expect that as economy improves, a lot of the provisioning we have should get released as the project gets completed, but the important part on the wholesale book is going to be workouts.

The third thing I want to talk about friends is about growth because after balance sheet strengthening, and asset quality, the other important part has been growth in all businesses except credit and ARC. For obvious reason, credit had not been growing and in ARC also we made a call to focus more on recoveries because as you know between 2014 to 2018, we acquired a lot of assets. Last two years have been focus on recovery, I expect even this year we will focus on recovery and maybe we will start acquiring fresh assets about a couple of quarters down the line because I think there is a lot of liquidity, but our idea was to prove that we are strong on recoveries. For example, in our ARC we have recovered about close to 21,000 crores in the last three years, and in this quarter, we have also had more than 2,000 crores of recoveries in our ARC. So we will start a new round of acquisition in a couple of quarters. We also spent time investing in asset management and wealth management to build capacity. On the retail credit, this was a good quarter. We disbursed 215 crores in retail credit in Q3, so disbursements have picked up. At the peak, we used to disburse between 700 to 800 crores a quarter in our retail credit book, which had gone down to almost about 40-50 crores, we are now up to 200 crores and we think getting back to 400-500 crores soon should be possible. We have lots of liquidity in our housing finance company and we are seeing a lot of growth out there as you are seeing in the environment.

In the wealth management, we have had very good growth, 30% growth in assets under advice. In Alternatives, I think leadership position has been strengthened. We raised more than 8,800 crores in the current year which is more than a billion dollars and that has been the highest ever. Our mutual fund has had very good year. In fact 2020 was one of the best years for a mutual fund. In the last quarter - Q3 our fund saw a net equity inflows of 1,000 crores. As you know, we are very big on the bond ETF with Bharat bond but even on equity inflows, we saw the net equity inflow of 1,000 crores in comparison to about 46,000 crores outflows for the industry as a whole. So in a quarter where industry at 46,000 crores of equity outflows, our mutual fund at 1,000 crores of inflows and both our asset management businesses have started becoming profitable now. So as you know our wealth management business became profitable about three or four years ago. Now we want the asset management business to start contributing to profitability and four-five years down the line, insurance businesses should also start contributing to profitability. Our insurance businesses have grown well, they have a strong digital backbone and both our life insurance and general insurance has been industry leading growth not only in the last quarter, in the last year also.

Our corporate book is fairly well provisioned, secured, as I said we carry about 164% of provisions and we have more than 3,000 crores equity in this book on 8,000 crores loan book. We are slowly going to release this equity as the book comes down and we do the work out on this loan and that equity will be used by the SME to grow the business. But both in our housing finance and SME, our focus will be on asset light model where we are going to be partners with bank, so even now our credit book composition continues to be 51% retail, 49% corporate, and about 10% of our retail book is AUM which is something we have securitized of about 1,500 crores. Going forward that will grow and we want to make sure that we have a good balance between on balance sheet assets as well as off balance sheet through securitization, so this is our growth plans as we go along. A large part of our book is collateralized, only 5% of the book of about 750 crores is unsecured. Otherwise everything else is secured credit in our credit portfolio. The last thing friends is about profitability. Obviously, last two years we have taken a hit on profitability, but our wealth management has been scaling up profitability fairly well. They have reduced the assets they have, but in spite of that the last quarter has been a good profitable growth for them. They still continue to be in investment mode and they are balancing investing and profitability at the same time. Our ARC, profits have been good but the balance sheet has been deleveraged from a peak debt to equity of 3:1, they are now about close to 1.5:1. So as we have got lot of recoveries, we have de-levered the balance sheet which has brought down profitability as a whole but ARC continues to be in a good place with clocking about 350 to 400 crores pre-tax profit per year.

Our asset management profitability, as I said earlier has started to kick in. Retail credit profitability will kick in from this year onwards as they start growth again because though we had scaled down the disbursements, we had kept the retail team and all so as we start scaling up disbursement, I think profitability on that will kick in and you will start seeing that. Two areas of work in profitability required after debt are our corporate book and the BMU. As I said, corporate book, ECLF, will become positive from FY23 onwards. We are making sure the current pressure is largely because of non-yielding of the loans but as we work them out and release the credit exposure in that, this will start improving and on the balance sheet as we complete our restructuring, we have now really restructured. Last two years not only have we managed the environmental crisis, but we also restructured the group completely and part of the cost at the BMU is restructuring cost, the excess liquidity that we are holding to make sure all group entities have enough access at a group level and do not have to depend on each other and that has also allowed us to make sure our restructuring is very positive and we think as this gets completed even BMU should come to profitability. So the other focus items have been the transaction with PAG on the stake sale of WM, it is progressing as per plan. We are waiting for all the regulatory approvals to come in, quite a few of them have already come in, a few more are remaining and we expect to consummate that soon and then we will continue with the plan to demerge that business and get it listed as an independent business. As part of our focus of getting ready for the future, we have also built a lot of cost efficiency. COVID was a good opportunity to make sure by reduction of branches, through work from home, using technology we have achieved cost reduction of 27% in Q3 as compared to FY20 average. So fairly good opportunity to even bring cost down and become more efficient. So all in all the quarter was as per our expectation. The foundation is strong, the businesses are now independent, they have

their own capital governance structure, most businesses have done well. In Credit especially, retail credit will start showing growth and profitability and FY21 is a reset year. Our journey from FY22 towards profitable growth and unlocking value for the shareholders will start.

Lastly, we think a large four-five year growth cycle for India has started, so fortunately I think as I said this is the beginning of the end of a turbulent period for India and for the financial services industry. It is also heralding a new era of growth for India and very similar to maybe what we saw in 2003 and 2004 where after a long period of sideways and lull and lot of asset price correction, we started seeing growth. I think the same kind of ingredient seemed to be there, the Government actions, the RBI action seem to be propelling growth and this time we think India's growth will be investment led. It will not be consumption led. India needs lot of investment because almost last eight years, investments in the economy have been very low. Our asset management, wealth management business are very big and we will be beneficiaries of that especially our asset management business which depends on credit strategies. We have all the credit strategy funds from performing credit to real estate credit to infrastructure yield funds, a lot of them will see a lot of traction. We have 30,000 crores of assets under management, out of which only about 50% is deployed, the balance 50% is dry powder and we are seeing a lot of opportunities to deploy. In fact the ILFS crisis and the turbulence in the NBFC and the mutual fund industry has created a lot of opportunity for AIFs and credit led strategy in a fund format. So we are happy that we have managed the last two years, managed to grow, manage to invest. Even though the last two years have been very turbulent, but the foundation has become strong for all the businesses and our ambition of making sure there are enough capital and liquidity and growth runway in front of them augurs well for us.

India's return to growth is very, very encouraging and we just have to remember to be patient and keep on making the foundation solid which is what we have done in this quarter before we start growing again. Because this is not for the next one quarter, this is for the next 20 quarters, the opportunity that is there, and I think being a diversified financial services company, all our businesses are fairly well poised and wherever there were headwinds or problems like in the corporate book, they have been identified, ring-fenced, and also are being managed well. So with that once again thanks a lot to all of you for being on this call and I do look forward to having some questions and interactions with all of you. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Lokesh Jain from Praveen Jain family office. Please go ahead.

Lokesh Jain: Thanks for giving me opportunity, I have couple of questions. Sir, you have repurchased 650 crores worth of bonds from the market, my question is how are you going to account for the principal and interest amount?

Rashesh Shah: I am not an accounting expert, I think maybe our CFO can answer that, but our idea of purchasing was because we have a lot of liquidity, we have enough liquidity for the next two years. Of course, this is more short-term liquidity as compared to doing more home loans which are five and seven years, so we are buying back bonds which are maturing in the next two years and my

impression is that these bonds get cancelled when we buy them, but our CFO can answer that. Himanshu/Sarju, do you want to try and answer how do we account for the bonds that we buyback.

Sarju Simaria: I was telling Rashesh, basically you are right, this gets cancelled on both the sides, you would not be paying interest to yourself, so it gets netted off.

Lokesh Jain: One more question from my side, when are you likely to get into profits for your life and general insurance business because I suppose it has been a five or six years period the business has been running for?

Rashesh Shah: I think the life insurance business we expect it by, so it is again a function of growth, I mean unfortunately or fortunately the insurance businesses are such that in the early years the more you grow, you will keep on making a loss and when the growth hits a particular point after that. So in the life insurance business the average has been about nine to 10 years. We will complete our 10 years in 2023-24, so we expect to start becoming profitable there and the general insurance business is only three years old, we are in no hurry to get to profitability, we want to invest in the business. We have invested about 300 crores in the business in the last three years, we will invest another 300 in the coming three years, so about average investment of 100 crores a year is what is required for that business. But we already are seeing more than about 50%-60% growth. Plus it is a very digital, Fintech led business which is we are acquiring more than half a million customers a year. So it is truly the most retail of all Edelweiss businesses. These two are still in investment phase I would say for the next four to five years and we will continue with that. But the average investment in this will be about approximately 100 crores every year for each of the business, so about 200 crores a year is what the expectations would be, which two or three years ago when we were making pre-tax profit of 1,000 and 1,200 crores, it amounted to 20% of that. As our profits have come down, this looks a large number but I think in the overall sense this should get back to normalcy and the next four-five years, we are actually very keen to invest especially in the general insurance business. We are seeing a huge amount of innovation, traction in that business, and we are truly very excited. As you can see, there are couple of slides on that, but in the coming quarters, we will be happy to speak more about those businesses.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Good Evening Sir, could you talk about the NPA ratio adjusted for the Supreme Court standstill?

Rashesh Shah: We are not looking at NPA so much we are looking at Stage-3 assets. So I think in the wholesale book the Stage-3 asset is about close to 10%, it is a 8,000 crores book and in the retail book is about 3.5%, so we now look at Stage-3 and provided accordingly because NPAs are not important anymore because even if you do not call it NPA, under Ind-AS you have to call them Stage-3. We have done about I think eight or nine accounts we have done the restructuring on the wholesale side under the DCCO and all, but on all these accounts, we have made sure that whether NPA or not, we are well provided because one thing we should understand that now

NBFCs have to follow Ind-AS which is about impairment and mark-to-market, even if it is not an NPA. There are lot of accounts we have which are not NPA yet, but we have provided on them because there is expected impairment also.

Aditya Jain: So both 10% and 3.5% are ex of standstill?

Rashesh Shah: No, you can assume it is ex of standstill because the standstill applies only to NPA, the standstill does not apply to Stage-3. So NBFCs will have to call them Stage-3 even if they do not call them NPA.

Aditya Jain: Got it, and for the company overall, Can I get clear breakup of the loan book also if it was there it would help, absent that if you could just tell us for the company overall what would be the GS3 and the overall provisions that we have, not by entity but the total 1,000 crore provision?

Rashesh Shah: So I think our total credit book which is there is what I have said. Maybe offline Ramya can give you a breakup of under the different asset classes because now we have gone to an entity model. So all our companies all our entities, ECL finance, Edelweiss Housing Finance, ERFL, ARC they all calculate their ratios and publish them independently because Edelweiss as a whole is not an NBFC. We are a diversified financial services company and we have a lot of like, in the wealth management we have a loan against shares book which is about 1,500 crores, the margin funding book but earlier we used to classify that as part of ECL finance, now it is independent inside the wealth management business, maybe offline Ramya can give you the breakup of all the loans, but we do not see Edelweiss as one consolidated NBFC. In fact, that was the mistake that happened in the last two years. We are a holding company, a diversified company with 10 businesses underneath that and the idea is to look at whatever asset quality, NPA ratio of each company independently because like as I said the loan against shares book is in the wealth management, housing finance is in housing finance, wholesale book and SME is in ECL finance all of that.

Aditya Jain: Yeah, I will follow-up, on the wealth side there is an increase in Opex and a decline in PAT this year QOQ, could you just help understand what has driven that?

Rashesh Shah: Yeah, I think two things. I think one is as you know to get ready for the PAG transaction and the demerger because we also want to demerge this business, there has been a lot of restructuring that has been done and there has been cost on that restructuring also. Lot of entities have been aligned. So I would expect this quarter and the next quarter also at least about 12-15 crores per quarter will end up becoming restructuring cost for the next two years. And last because the last quarter onwards, the economy has come back, the businesses are growing again, we have started building capacity, we have started giving incentives and all that so that because that business is growing very well and we want to continue to invest in that.

Aditya Jain: Last thing from my side on the home loan, on the EHFL entity we have reported a loss, it seems to be due to higher provision. If you could talk about which segment and which part of the loan book and maybe which industry and market are we seeing issues and how large those issues are?

Rashesh Shah: These are not large, this was the first quarter after the Supreme Court moratorium ended, so we were expecting a spike and we have actually conservatively provided for that also rather than work towards any restructuring or anything else. A lot of this is in the self-employed segment, as you know housing finance is focused on salary and self-employed and affordable housing, so this is in that. It is what we expected, it is as per the model because in August when the moratorium ended, we expected a spike in this quarter and hence we have very conservatively provided for that.

Aditya Jain: So this should be within LAP I assume, if you could tell the share of LAP within the overall loans would be how much?

Rashesh Shah: In the housing finance company because of NHB rules, you have to be more than 51% home loans and that is what we are. Maybe Ramya can give you the exact breakup and I think we can publish that in EHFL, but I think it is about 55% home loans and 45% LAP is what I knew last, and as per the NHB rules, we have to be 51% home loans.

Moderator: Thank you. The next question is from the line of Chandra Govindaraju from Ashmore Group. Please go ahead.

Chandra Govindaraju: Sir, I was looking for Stage-2 numbers for wholesale book and retail book, could you please provide that?

Rashesh Shah: I do not think we publish Stage-2 at all, we only publish Stage-3 as a matter of policy, but I think if you can look at provisioning, you should be able to calculate that is what I have been told, but we do not publish Stage-2.

Chandra Govindaraju: What is the total provisions that we have against wholesale book and retail book in terms of crores?

Rashesh Shah: Again, I think you should look at impairment because we have written off also quite a bit. As you know two quarters ago last year we wrote off quite a bit also because again I think we all need to understand that in NBFCs it is not just about provisioning because this is not an NPA regime anymore, this is provisioning and write-offs also. So I think collectively I do not know. Sarju if you have the number handy of how much is provisioning and how much we have written off. I think you should look at both of them because in the Ind-AS regime, lot of loans we give also in the form of bonds and marked down the bond, so you do not provide for that, you do not call it NPA and then provide for it, you just mark it down.

Chandra Govindaraju: In terms of BMU, how soon you think you will get to profitability?

Rashesh Shah: As I said we currently are holding about 2,200 to 2,300 crores of excess liquidity which we decided in this crisis period to hold it at a group level so that it was available to anybody. Because if you remember two years ago ARC had still not got the recoveries on Binani Cement, Essar Steel, all of that including wholesale also we had no idea, then COVID period happened, so we decided that we will hold some excess liquidity at the holdco level. So we borrowed slightly

expensive money in the market because this at holdco is fungible, long-term money. But we said this we can give it to anybody and this was the cushion that we built which helped all our businesses go about their business without really worrying and trying to figure out if they have 100, 200, 500 crore shortfall in a particular quarter. The group was always there to provide that to them, so this was the main drag on the BMU that we have had, and as you know only last quarter things have improved. So you cannot just switch off the liquidity automatically, but I expect over the next two quarters a lot of this will get out of the way and I think BMU should get to at least break even again and that is what it should be as we have restructured all the businesses. So part of the BMU cost is also restructuring as we are providing equity capital, cross holding are being removed all of that is going on, so I would expect another two quarters. As I said the two main entities where we have to solve the profitability, one is BMU and one is ECL finance. ECL finance will come to steady state growth profitability after the next four quarters and BMU should be in the next couple of quarters.

Chandra Govindaraju: Got it, one final question on the asset management business, if we look at the PAT to AUM, we are standing at in high teen levels, should we see improvement from here on? How do you see the PAT to AUM for the asset management business?

Rashesh Shah: I think in the mutual fund we are still growing and in the mutual fund almost half our assets are in ETF and other half are in non-ETF. But as I said earlier, a lot of our equity assets are growing. On the alternative side, it is currently low because we have been deploying money, we have only deployed 50%, balance we are deploying now and in alternatives the way it works is when you deploy money, your profitability improves, but when you exit you get the carry income and the profitability improves even further. So I think we should get to yields of about 20-25 basis points collectively for mutual fund as well as for the alternative business in the next four to six quarters. As I said, asset management is just coming into profitability, it is just in the last about a year and a year-and-a-half that it has turned profitable. But we have accumulated good assets, I think 40,000 crores in the mutual fund and 30,000 in alternatives is a nice 70,000. If I remember about five or six years ago, this was not even 7,000 crores, so in the last five years we have grown from 7,000 crores to 70,000 crores. The profitability will kick in and I think in the next year onwards you will start seeing uptick on profitability the way we saw it in wealth also.

Moderator: Thank you. The next question is from the line of Anitha from HSBC Asset Management. Please go ahead.

Anitha: Thank you very much, just wanting to know when you said that liquidity is easing in your specific circumstance can you just tell us what kind of response you are seeing from the market and from the banks on when you say liquidity is easing?

Rashesh Shah: I think the amount of liquidity we are carrying, one, B is we are able to borrow in fact for the first time in the last quarter we have said no to some of the bank loans because of cost reasons. I must admit last two years all of us were happy just taking whatever loans you got at whatever cost, now we are starting to also say no to loans because of the cost reasons and all. As I said even in our P&L, we are seeing the burden of excess liquidity. We are able to borrow, we did a

retail bond issue end of December-early Jan, which was supposed to be 100 plus 100 crores and this was more like testing the market and we got a huge response, we collected more than 240 crores, so I think we are seeing a fair amount of traction. As we are seeing now the focus is on deployment both in our asset management, we have about 14,000-15,000 crores of dry powder that we wanted to deploy. In our ARC we have a lot of liquidity, we are trying to prepay some of the loans in ARC also. In our NBFC and HFC, we have been buying back bonds in the market. We are carrying a lot of liquidity and now the focus is on disbursements.

Anitha: Okay, just specifically this BMU entity of ours is Edelweiss rural and corporate entity, right?

Rashesh Shah: It is a holdco entity. I think we have about three or four holdco entities that we are now collapsing into a CIC as part of the restructuring So about a year ago we got the CIC approval from RBI and now slowly everything will get folded. All the holdings of the group company will get folded into CIC.

Anitha: Okay, and this entity also has about 2,000 crores to 2,300 crores of bonds which are maturing in the next couple of months?

Rashesh Shah: If it is in the next couple of months we would have bought it by now, No they are not maturing in the next couple of months. I think we have some bonds maturing around in the fourth quarter of this calendar year and in fact we are holding all the liquidity for that also and that is also hurting us. We are trying to buy back the bonds, so if there is anything in the next couple of quarters, we are very happy to buy it back. We have enough liquidity on hand for the next 12 months of whatever repayment that we have to make.

Anitha: Just one more question, Sir wholesale book you have mentioned that you have about 2,000 to 3,000 crores of repayments or asset sales like cash coming in the next quarter. So is this largely in the form of repayments or from asset sales through ARC or with your own ARC and so on?

Rashesh Shah: No, I think now the ARC sales and all have slowed down to be honest with you., A lot of these projects which were either marginally viable were stuck and needed more money. Frankly five to six months ago there was no outcome for that, it was on a standstill basis but now on all these projects, some new developers are coming, some refinancing is happening, some new investors are coming in and we are seeing a lot of progress on these projects. So I think a lot of these projects will either get refinanced or a new developer will come in and complete that or you will get new investors who will provide the last mile funding to get them done. As you know, we had stopped doing very aggressive last mile funding and we had made sure that these projects are not overly dependent on us to keep on providing money to complete the projects, they have to be able to raise external money. A year ago it was not easy, but last four or five months a lot of these projects have been seeing a lot of traction, in fact four to five projects we have already seen exits and refinancing and all happening already now.

Moderator: Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital. Please go ahead.

Prasheel Shah: My question was regarding to what one of the previous participants had asked, so you are not willing to disclose the Stage-2 numbers, but can you just give a comment on how it is doing compared to maybe last year or historical average of last two-three years?

Rashesh Shah: I think almost every credit book as compared to last year will be doing well, so I think because there has been a significant improvement in the economy as a whole and the financing available. A lot of the real estate projects were not suffering from the lack of collateral or the projects also not being viable, they were suffering from not having last mile funding and that has definitely improved a lot and that is why as I am saying there are new investors coming in, there are lot of new developers coming in to complete the project, so things have definitely improved and as I said for us as an NBFC I think more than Stage-2, Stage-3 is important because that is the one that we identify, we provide for. In the wholesale book actually Stage-2 is a misnomer, because either it is Stage 1 or Stage-3, there is unlike a retail portfolio where you can model the portfolio, in a wholesale portfolio it is very hard to model, each account is very specific and very idiosyncratic. So I think Stage-3 becomes very important and you have to make sure that even if an account becomes Stage-3 you have provided for it, but you still recover the money because in a lot of these accounts like even Stage-3 that we have we, we think recoverability is still high. There is very high level of recoverability, but it becomes Stage-3 because it is an impaired asset or a stressed asset and you have to provide for it. In fact, we have seen that in our ARC business also, a lot of assets which the banks and all had provided for actually gave them very good recovery and we are seeing that. I mean you have to see a lot of ARC cases, the recovery amount is higher than the current carrying value for the banks or the NBFCs and all. Because the way both NPA and the impairment under Ind-AS works is you end up over providing when the impairment is identified and then you recover if there is good collateral underneath that, and as you know because of our ARC, we are experts in recovery. We have done as I said more than 22,000 crores of recovery in the last four years. So the way it follows is if there is stress, there is impairment then you have to take either a mark down or a provisioning and then you recover. But on an average you should have marked down enough so that your recovery is higher than what you have marked out it with.

Prasheel Shah: You said your wholesale book was 8,000 crores, right?

Rashesh Shah: It is 8,000 crores, our total book is about 15,000 crores, about 51% is retail and 49% is wholesale. The only thing I can tell you is in this quarter, Stage-2 assets have only gone up by 60 crores from what it was a quarter earlier.

Prasheel Shah: My next question is regarding the provisioning and the mark down which you were just speaking about, so on the existing book of 15,000 crores what provisions do we carry?

Rashesh Shah: Himanshu/Sarju, do you have the exact provision number?

Himanshu Kaji: We will give it to you later.

Rashesh Shah: As I said for us more than provisioning it is the mark down that is more important because in an Ind-AS environment provisioning is a lot easier. If you see that slide which is there, that IRAC norms versus what we actually provided, we have consistently provided more than the IRAC norms, because I think we are all getting used to the new regime. But I think especially for wholesale, the Ind-AS regime is very, very different from the NPA regime. For retail, NPA and Ind-AS regimes are fairly similar, but for wholesale they are very, very different. In that slide, we have given the provision number, which is against on Slide 11 if you see, our Ind-AS provisions are 714 crores in that Slide Number 11 in the presentation, had we followed IRAC, it would have been 222 crores.

Prasheel Shah: Okay, so my next question is again how much would be, so you said in the last two quarters back we did heavy mark down, so in FY21, how much mark down plus provisions the company would have done?

Rashesh Shah: I think my estimate is the mark down and provision for these three quarters would have been close to 200 crores or so is approximate number. But again in the annual number we will give you for the whole year in the fourth quarter.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Hi Rashesh, two questions, one in the budget the regulations on insurance changed, that do you want to do something in terms of with Tokio Marine any change in the stake holding?

Rashesh Shah: We have three businesses in insurance, one is insurance broking where now under the new FDI norms 100% can be held by the foreign partner. As you know, currently Arthur Gallagher owns 30%. They valued the business about two years ago at 240 crores and they put in 30% of that as an investment in the business in the insurance broking business. Now the rules have changed and they can own 100% in the business. Also I am happy to say that in two years, it has almost doubled in profitability since they invested, so that is one business where the partner can go up to 100%. Our other business is life insurance where we own 51% under the new rule which is proposed, it still has to go through the Parliament and our idea is that we will do whatever is right for the business. So if partner comes and can invest more in a business and help the business grow faster well and good, as I said we have some amount of investment appetite. For our both general insurance and life insurance business, we expect to invest 100 crores a year over the next three to four years and that we have already provided for. We have the money for that but if the business can do better and can grow faster with a higher stake of the partner, we are always more than happy to consider that. As you saw in the wealth management business also, we were happy to give 51% stake to PAG because for us it is more about value creation and then value unlocking rather than keeping control because all our businesses anyway are run independently. There is no one Edelweiss control over the business, a lot of businesses have their own investors, their own partners, their own Boards, now they have their own balance sheet and all of that. So our idea is to create business and over last 25 years, we have consistently created value. Like I spoke about the insurance broking business, this is a business we started 12-13 years ago and about

two years ago, Arthur Gallagher invested at 240 crores and this is a business we have created very organically, slowly and steadily brick by brick and the same thing you will see in our ARC business.

In the wealth management business that you know PAG is valuing the business at 4,400 crores, we have collectively invested only close to 120-130 crores in this business. But we also invested 20 years in that business, so our idea is if any business can grow faster, create more value for our stakeholders, we are more than happy to consider any structure as allowed under the rules and FDI rules are becoming more and more favourable. We think insurance is a big growth area, the more capital you can pump into insurance, I think the next 10 years will be a big insurance growth in India both life and general insurance and we are happy that we are very well positioned in the business. We are still small, we are still very small but I think the kind of growth we have seen in the last eight to 10 years in our life insurance business and in the last three years in general insurance business has given us a lot of confidence that the only constraint to both these businesses is your ability to invest and if we can get partners who can invest more, then we are happy to look at all structures.

Jeetu Panjabi: On retail lending side, is there a thought process I mean we can see the home finance is obviously scaling up, but is there a thought process on the next gen digital lending and other stuff that has been happening out in the market, is there a thinking around that if there is a plan to scale up or do something there?

Rashesh Shah: I think that there are increasingly going to be two kind of NBFCs, one I think will be bank like who will have big balance sheets and will have a lot of assets and all that and who we may also have cost of funds advantage because they are promoted by a corporate house or a large bank or others, so they will be bank like, they will compete with banks, so bank will give a home loan at 7%, they will also give a home loan at 7%. Then there will be others who will be bank partnered and in that actually in our ARC also, we have shown that we are good partners with bank. In the last two years also, I think we have done good partnerships with banks on both SME and on home loan and we have been working actually for the last one year and a lot of this is very tech led, but it is not purely digital, so it is not only Fintech, it is a combination of physical and digital. You still do some of your origination, see if it is a loan under 5 lakh, 10 lakh digital origination works, but any loan more than 5 lakh-10 lakh there is some physical origination required and then you have all your underwriting and customer experience processes which are all digital and then you are servicing can be a lot more digital. So I think we have combination of both, but your recoveries will then still be offline and will be physical. So I think that is what we are partnering with banks with and our idea is currently out of our total retail book of about 8,000 crores, only about 1,500 crores is under AUM, the 8,000 crores is on a balance sheet. We think going forward we should have a good mix which will be about 60:40 on the books and off books kind of because we have no desire to grow the balance sheet. But we have enough equity so our housing finance business now has more than 800 crores of equity in Edelweiss Housing Finance, Edelweiss Retail Finance has close to 500 crores of equity, so we have a lot of equity. If we continue to use this equity to grow and partner with banks then we do not need to raise equity at all and we can just keep on growing organically. We think a good digital led but with a little bit

of physical model and a little bit of the balance sheet that you can bring in gives you a strong advantage to get to about 15%-16% ROE kind of a model. So this is a business we are going to grow at 18% to 20% can give you 15%-16% ROE and that is what we want to do on the credit side. As you know, we have got credit, we have got wealth management, we have got asset management, we have got insurance businesses. So we have four pillars and each of them are in different stage of growth. But in credit, we have not only enough equity in housing and retail, but we will release more out of the wholesale book because there is 3,000 crores of equity already residing in the wholesale business, a part of that will come back every year.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Ms. Ramya Rajagopalan for closing comments.

Ramya Rajagopalan: Thanks Raymond. Thanks to all of you for having found the time to participate in our call today. Please do write in to us at Edelweiss investor relations in case you need additional information on any aspect of the discussions we had today, and we look forward to seeing you again next quarter. Thank you so much.

Rashesh Shah: Bye everybody, thank you.

Moderator: Thank you very much. On behalf of Edelweiss Financial Services Limited, that concludes the conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.