CHAIRMAN'S LETTER 2021

Edelweiss
Ideas create, values protect

Chairman's Letter

As we wrap-up FY21 and enter FY22, it almost feels like déjà vu. As it was 12 months ago, we are emerging from the throes of COVID-19, albeit a much more severe second wave. The past few months have been a tough time for all of us, just as we were slowly but steadily emerging from the ravages of the first wave. This time around, the impact has felt much more personal. Each one of us has experienced sickness or loss personally or through colleagues, friends, and extended family. It has been a tough and challenging time for India and now, more than ever, it is important for all of us to come together.

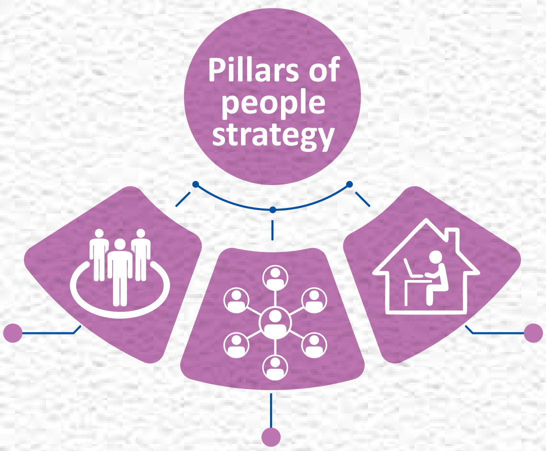
In the backdrop of these difficult times, it has been heartening to see the superb collective efforts that all of us have made to help the vulnerable. I am sure each one of you has a personal story to share of how you stepped in to fill the gaps in the infrastructure and offered aid to someone in need - whether it was hospital beds, or medical supplies or oxygen concentrators or donations. We have also tried to rally around our employees, and our society, in these difficult times and provide the best possible help.

Lending a helping hand

Safeguarding our people

Last year, the lockdown was the first-of-its-kind we had ever witnessed. We enabled a swift and seamless transition to work from home, without any significant loss in productivity. It was important to ensure the safety and well-being of our employees but also at the same time to ensure that we were connected to our clients in these challenging times, more than ever before. Therefore, even though we went more digital, we ensured that the lack of physical connect was more than adequately supported by enhanced virtual connects at higher frequencies than ever before.

This year, as the second wave struck, our work from home and digital connects were all well established. However, as earlier mentioned, the severity of the pandemic's impact meant that we were focused on a three-tier people strategy -



Employee safety and well-being including 24x7 emergency services, dedicated COVID-19 helplines, counselling services, support for medical services, insurance coverage, vaccination enablement and reimbursement, amongst others.

Employee outreach/ support groups as well as leader connects through regular virtual townhalls

Enabled complete WFH with support and guidance on managing teams, being more productive, digital detox, enhancing collaboration

As we interacted with our teams through the crisis, we realized that our employees were facing much more than professional pressures as they navigated any given workday. While the focus on safety and well-being from a Covid perspective was paramount, one aspect which was largely getting ignored was the mental health aspect. Therefore, very early on in the pandemic timeline, we focused on providing an active support group for our people, through regular interactions and check-ins. We drove through, across the organization, a message of empathy and support – none of us could really be aware of the complete circumstances of an individual in these challenging times and hence, it was necessary, before anything else, to come from a point of view of empathy and support when interacting with one another.

We drove through, across the organization, a message of empathy and support

Our Social Responsibility

EdelGive Foundation significantly stepped up its efforts to support vulnerable communities:

Funded and raised over **₹1 billion** for COVID-related work in FY21

Partnered with **46 NGOs** in providing aid and relief to people residing in difficult geographies and vulnerable communities

Contribution directed towards **helping affected families** with cash transfers, food grains, oxygen and health supplies

Support to grassroot organisations engaged in immediate relief activities such as providing emergency ration kits, oxygen and health supplies, and awareness generation activities

Launched The GROW Fund (Grassroots Resilience Ownership and Wellness) a unique collective of global and Indian philanthropists, working towards jointly supporting and sustaining 100 grassroot organisations across India, over a period of 24 months.

FY21 Rewind

FY21 was a challenging year – yet it was a rewarding one as well! All our businesses, barring Credit-linked businesses, had their best year since inception, despite the impact of the pandemic and the subsequent lockdown. Some of these were driven by natural inflection points in the business lifecycle, some through our agile transition to digital modes of doing business while some others were driven by overall change in the market environment.

- **Alternatives and AMC**

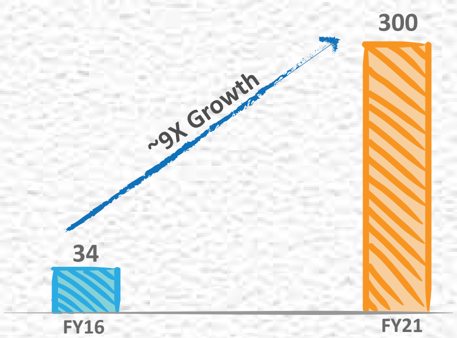
  Alternatives and AMC businesses together constitute our asset management offerings. Both these businesses had break-out years, best-ever growth years in their history!

  The Alternatives business raised more than ₹80 billion across two hallmark funds in structured credit and infrastructure. The business also deployed more than ₹40 billion across multiple funds through the year as the swift post-pandemic recovery by businesses provided a new growth impetus to the economy.

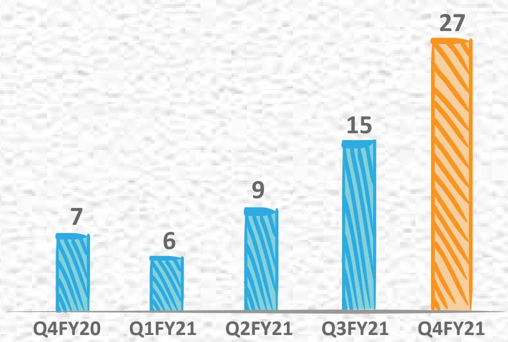
Our AMC, on the other hand, nearly doubled its AUM in FY21 and is now the 15th largest AMC in the country. In fact, the AUM has grown 35x in the last five years. We also crossed ₹100 billion of equity assets in the AMC, with net equity inflows of ~₹36 billion in FY21 compared to industry outflows of ₹550 billion. We also continued to stand out in product innovation with the launch of India's first passive debt index fund investing in PSU bonds and State Development Loans (SDLs).

Most of our businesses had their best year since inception, despite the impact of the pandemic and the subsequent lockdown

Alternatives AuM (₹ billion)



Mutual Fund Equity Gross Sales (₹ billion)



- **Life and General Insurance**

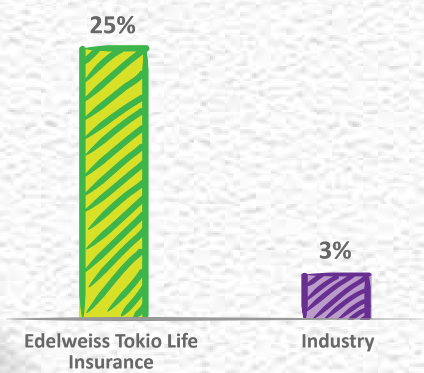
Life and General Insurance businesses in Edelweiss have seen strong growth every year since inception – LI since 2012 and GI more recently since 2018. However, last year was an even more phenomenal year for both these businesses as the transition to digital mode was one of the fastest in the insurance sector.

Edelweiss Tokio Life Insurance crossed ₹4 billion Annualized Premium Equivalent (APE) milestone for the first-time with a 25% YoY growth. This was against only a 3% growth in the industry.

Similarly, Edelweiss General Insurance had an overall premium growth of 49% YoY. This was against the industry growth of 5% YoY. Growth in our chosen segments of motor and retail health was even more impressive compared to the industry.

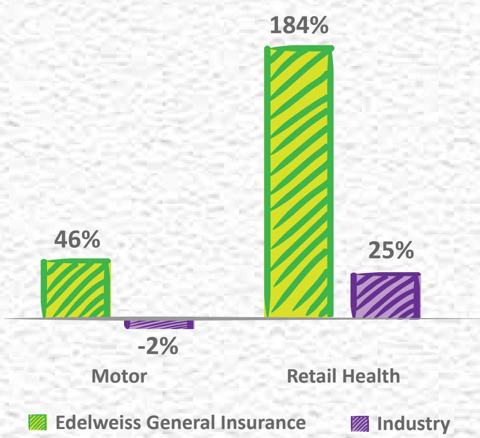
Life Insurance

Individual APE - Outpaced Industry growth YoY in FY21



General Insurance

Strong YoY GDPI performance in Retail Lines compared to the Industry in FY21



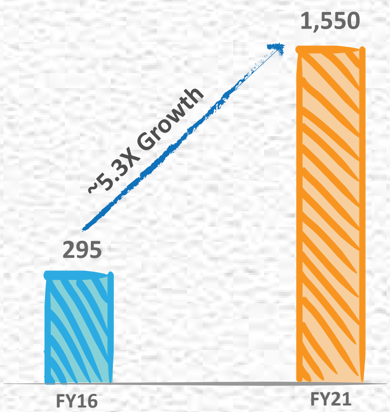
- **Edelweiss ARC**

  FY21 continued to be a robust year for our ARC business despite the challenges of the pandemic. We made gross recoveries of ₹54 billion in FY21 spread across almost 180 borrowers. The business remains well-capitalised with a Capital Adequacy ratio of more than 37% and a Net DE ratio of only 1.4x. This has been achieved through a 22% YoY reduction in net debt levels, driven by strong recoveries. We intend to continue to work towards reducing leverage levels in our ARC business as we scale up the Retail ARC franchise.

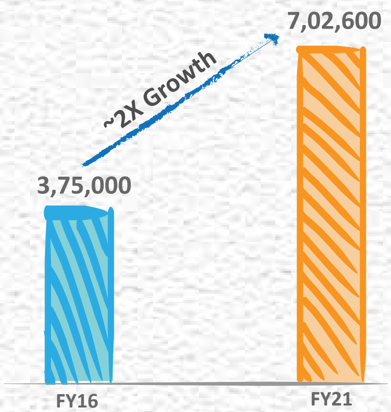
- **Wealth Management**

  It was a strong year for the wealth management industry as strong growth in capital markets provided an impetus to all parts of the wealth management business. Edelweiss Wealth Management also, like our businesses in asset management and insurance, had its best year ever, clocking a profit of ~₹2.5 billion and a 36% growth in Assets Under Advice (AuA). As of Mar'21 the AuA stood at ₹1.5 trillion, more than a 5x growth in the last five years. Clients have also scaled up considerably in the same period.

Wealth Management AuA (₹ billion)



No of Clients (#)



During FY21, we entered into a partnership with PAG in our wealth management business. This transaction was done at a valuation of ₹44 billion and we now hold 38.5% stake in EWM with an option to increase this to ~44%. The transaction also enabled fresh capital infusion of ₹4 billion in the business to enable future growth aspirations. Our overall plan here is to unlock value for our shareholders through the eventual demerger and listing of EWM in the next 12-15 months. This is in line with our overall strategy whereby we focus on long-term value creation and subsequently unlocking value to enable direct benefits to our shareholders.

Similar to the EWM business, we focus on long-term value creation and subsequently unlocking the value to enable direct benefits to our shareholders.

- **Mortgages & MSME**

The pandemic and subsequent lockdowns had a significant impact on the Credit markets, especially in the short-term. Collections had been impacted during the lock-down, but we have seen significant improvement in subsequent months. There has been some impact on asset quality, and we have pro-actively worked towards resolution on that.

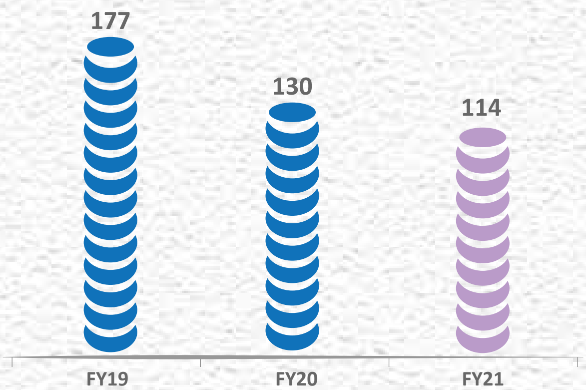
In the Mortgages business, we have been conservative on disbursements, especially owing to the second wave and possibility of a third one. We will continue to closely track the portfolio performance to ensure minimal slippages. Collection efficiency had reached 99% by Mar'21 and despite the second wave, remains at more than 90% in June'21. We have also worked towards building our new sell-down model in mortgages with securitization of ~₹9.5 billion of mortgages book in FY21. As we scale this book in due course, we also expect to do even higher sell-downs to build our asset-light mortgages business model.

The MSME business followed a similar line as the Mortgages business with caution around fresh disbursements and focus on improving collection efficiency of existing portfolio. Collection efficiency was 94% in Mar'21 and continued to be above 90% in June'21 despite the pandemic.

- **Wholesale Credit**

We continue to focus on reducing our Wholesale Credit loan assets and have seen significant progress in the last couple of years with a 35% reduction as seen in the chart below. This trend will continue going forward and we expect to halve the book in the next two years. The asset quality of the book is now under control as accelerated impairments taken earlier mean that we are well-provided and adequately collateralized.

ECLF Wholesale Loan Assets (₹ billion)



We expect to halve the wholesale book in the next two years

The year FY21 was unique in many respects. Even as we were witnessing an unprecedented era of a pandemic and lockdowns, there was another seismic change playing out in parallel. The acceleration of digitization that came about due to the pandemic has, in some views, achieved the expected outcome for the next several years of 'normal' digitization. In turn, this has enhanced the productivity and efficiency across sectors and industries. Coupled with the significant de-leveraging being seen in multiple firms, and the added benefit of low-cost financing, we are starting to see the first green shoots of outperformance. In our view, these are significantly longer-term trends which will sustain not just for years but potentially decades.

The acceleration of digitization that came about due to the pandemic has, in some views, achieved the expected outcome for the next several years of 'normal' digitization.

25 Years of Edelweiss – The Good and The Not-So-Good!

Theodore Roosevelt had once said,

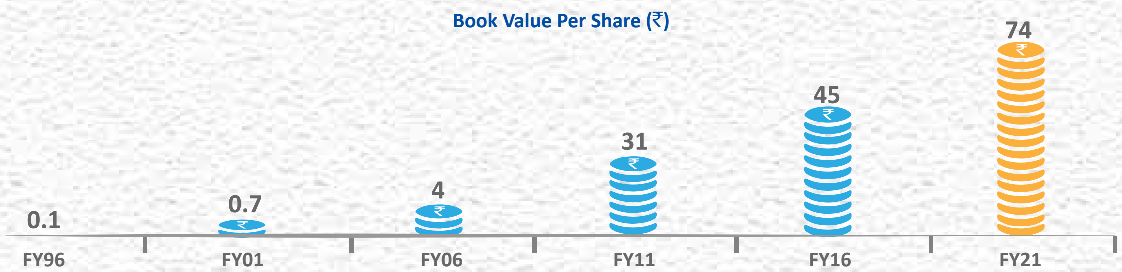
The more you know about the past, the better prepared you are for the future.

However, just knowing is not enough. What is equally important is learning from the past. It is a misnomer that the end of formal education signals the end of learning. On the contrary, the end of formal learning marks the onset of 'learning by doing', which truly is the most valuable learning of all. At Edelweiss, we believe that the process of learning is life-long and ever-flowing. Every day has something to teach us – the value and import we give to those everyday learnings truly determines our ability to progress and succeed.

In the same vein, as we reflect on the 25 years gone by, we celebrate 'the good' (and there have been many!) but even more essentially, we highlight and learn from the 'the not-so-good'.

The Good!

Our 25-year journey has been interspersed with several grand moments, be it our first acquisition in 2001, hitting double and subsequently triple digits in profits, our public listing in 2007, subsequent acquisitions of Forefront, JP Morgan MF amongst others, winning the mandate from Government of India on Bharat Bond, growing our employee base from 1 to ~9,000 and many, many more. The list truly is endless. The value created in this journey has seen our net-worth increase from ₹10 million when we started our journey to ₹85 billion today!



While BVPS is a good indicator, it is still not a complete reflection of the total value we have created (a significant part of which remains bundled within the Group and will be unbundled in due course like we have done in EWM). This value creation has been on the back of seeding and scaling multiple businesses with a long-term perspective.

The Not-So-Good – Learnings for a lifetime!

The Indian market is cyclical and while each cycle is inherently similar, it is never the same. We have seen several cycles over our 25-year journey and each one of them us has given us some unique learnings, which continue to evolve and improve our approach towards business.

That does not mean we will not make mistakes in the future – we feel that it is quite likely, in fact, almost certain that we will continue to make some mistakes. However, it is our responsibility towards you to ensure that we do not repeat any of the mistakes from the past and whatever mistakes we do make, we make them as affordable as possible!

Some of our key learnings include:

- **Wholesale Credit in NBFC structure**

  Our wholesale credit business (comprising Structured Credit and Real Estate Credit) was launched in 2007 but truly took wings after 2013 when the business started scaling significantly. This coincided with a liquidity-positive phase for the Indian economy as the government and the regulator actively worked towards easing the crunch induced by the QE tapering. The overall environment was conducive for growth and the wholesale credit business flourished. At its peak, our wholesale credit book was over INR 200 billion. This represented a significant concentration risk, despite our multiple business lines, if the business cycle turned.

  We started working towards de-risking the business profile by tapering off fresh business build-up in our NBFCs and doing majority of our incremental wholesale credit business through the fund structure in Alternatives. We realized that a fund structure provided the kind of long-term, flexible capital that will help tide over interim periods of market dislocation without any significant impact on the franchise, something that was not true for an NBFC structure. However, the ILFS default and subsequent events since have exposed us to a challenging period as we still held a significant wholesale credit book in our NBFC when this happened. While the tough times are largely behind us, they have exemplified the perils of wholesale concentration in NBFCs.

- **Value v/s Valuation**

  As a private company, one will often compare oneself to listed peers but these comparisons will never be completely accurate and hence, not something one should give inordinate importance to. However, once we were listed in 2007, it was natural to see how we shaped up against our peers, not just in size, scale and profitability but also on valuation. Thankfully, the 'memento mori' moment for us did not take too long. As the GFC unfolded, valuations of all companies plummeted to record low levels. Financial Services, especially, was severely impacted. In a matter of few months, we had seen both ends of the spectrum – the dizzying heights of unprecedented valuations as well as the lowest of lows after the market crash.

  Very early on in our post-IPO evolutionary journey, we saw the fickle nature of the market. While it was tough to see, it also steeled our resolve to not give undue importance to short-term market movements. Valuations, at any point of time, are equivalent to the price ascribed by the market. Composed of individuals with varying psychologies and behaviours, it is natural for the markets to be irrational – both on the upside and downside. What we focused instead was on creating long-term value – value which eventually does get reflected in the valuation over the long-term.

- **Quality precedes Growth**

  Growth has been a key component of our value creation journey. And across most of our businesses, this has worked well. However, there have often been times when a lot of work has gone behind the scenes, not in creating this growth, but building the support system for this growth. By its very nature, the Indian economy is attuned towards a healthy growth for businesses. However, in some instances in our journey, the growth trajectory has exceeded what we have been capable of handling. The backbone (what we call as Quality!) has often not grown at the same speed as the business, leading to a lot of incremental effort and build-up of complexity within our system. This is something we want to work on as we look at the next 25 years of our journey and we allude to in detail in the latter part of this letter.

- **Pitfalls of Concentration**

  As mentioned earlier, India is a cyclical market and within market cycles, there are cycles across industries and even within an industry itself. Hence, different parts of the financial services industry could face conflicting fortunes at different periods of time. This is best exemplified by the current state of the industry. While equity markets-linked businesses like broking are flourishing, lending businesses have been cautious on the growth front, preferring to see some stability before going up the credit curve.

  The need to diversify income sources was one of our key learnings early on in our journey when the business was impacted severely during the dotcom bubble. Our profits dropped more than 75% from FY2000 to FY2001. While we started our journey of shifting from monoline business in 2002, the real impetus to this came in the period from 2007 to 2012 when we incubated and launched several new businesses. Today, our suite of businesses truly identifies us as a diversified financial services organization

Building Businesses – The Edelweiss Approach

At Edelweiss, we start all our businesses with a certain hypothesis on the growth opportunity and our ability to provide resources to the new business as also to eventually build a moat for long-term success. We undertake a careful evaluation of multiple factors before we enter any new business. While more simplistic than the actual exercise, our approach to evaluate investment in any new business can be exemplified by SOARS. This is an evaluation we undertake not just when we launch a new business but at subsequent intervals of inflection, to see whether the hypothesis still holds true and if not, what are the options available to us.

Scale potential– Will enable significant value creation in long-term

Opportunity for Growth – Opportunity favours growth aspirations

Availability of Resources – Availability of resources (including capital) for growth

Right Fit – Business is the right fit for our overall portfolio

Secret Sauce – Identifying the 'secret sauce' we need to win

While a qualitative and quantitative analysis is one part of the story, what truly gives us the capability to create great, sustainable businesses is our long-term outlook. Because we have a very frugal approach to business building, typically, our seed investments in such businesses are on the lower side. This helps us play the long-game since the overall investments tend not to balloon significantly as to impact the overall Group. At the same time, we are also slightly stubborn people – we don't like to see experiments failing and usually find ways to make them work, more often than not! That is one of the key reasons why Edelweiss stands today as one of the most diversified financial services group in the country.

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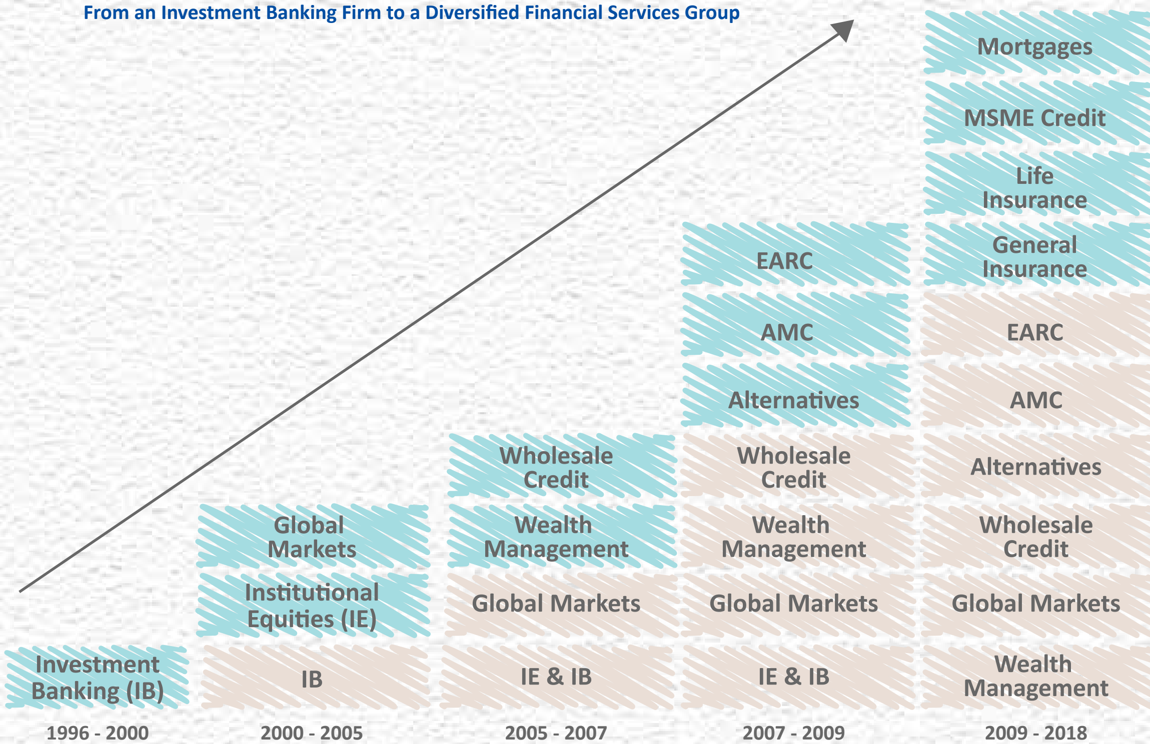
From an Investment Banking Firm to a Diversified Financial Services Group



Taking Flight – *Project Udaan*

About 10 months ago in October of last year, as we were emerging from the throes of the first wave of the pandemic, we felt that there was a need to go back to the drawing board and re-evaluate if any of our business models warranted a change – be it a mole-hill sized or a mountain-sized one. There were two main reasons for doing this – one, the post-pandemic world is a very different one to what existed in the past, both in terms of customer needs as also how you service them. Technology, if not already, was playing an even more critical role and it was important to evaluate any shifts to the traditional business paradigms which could potentially disrupt any business. Secondly, we strongly felt that we were at the cusp of a long-term upcycle in India's growth journey. As it is, India's natural compounding strength makes it a great growth opportunity (more on that later!) but with the culmination of a long-term, medium and short-term downcycle, the stage was set for an exponential growth trajectory. It was important that we were ready for this growth momentum. Thus was born *Project Udaan!*

Project Udaan was basically a four-phase process, run over a period of six months starting October 2020.

PHASE 1 Re-evaluated the market opportunity and defined what our aspirations were for the next five years

PHASE 2 Worked towards identifying the set of capabilities and key differentiators we needed to build to achieve those aspirations

PHASE 3 Ensuring that the enterprise backbone was ready for the kind of growth we were envisaging. This is something we are now focusing on in earnest and investing heavily across our enterprise functions, especially on tech side.

PHASE 4 Financial plan and the required resourcing for it

As can be seen below, all our businesses are well-capitalised and well-resourced for growth over the next five years. Since many of our credit businesses are scaling up on an asset-light, partnership based model, the capitalization is even more impressive!

Business	Metric	Value
NBFC	Capital Adequacy	27.5%
Housing Finance	Capital Adequacy	36.5%
Asset Reconstruction	Capital Adequacy	37.4%
Life Insurance	Solvency Ratio	215%
General Insurance	Solvency Ratio	209%

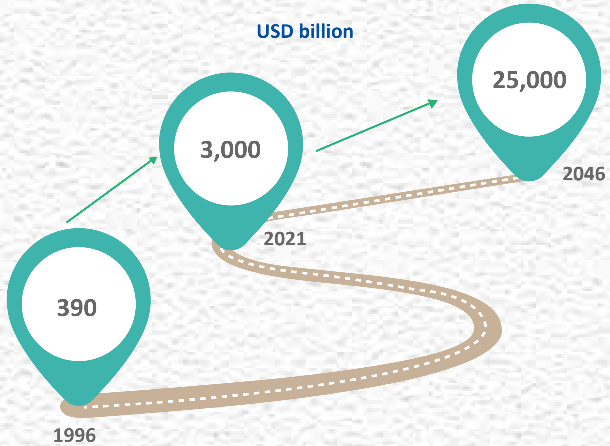
As part of Project Udaan, we have taken a fresh look and made tweaks where necessary to our business strategy. We are now ready with a defined plan and armed with a strong war-chest of resources. Even as we continue to strengthen our core, we are now also into gradual execution of the plan. As we look at the next five years, we are truly ready to take *Udaan.*

India – Visualizing the Next 25

The story of Edelweiss is closely aligned with the story of India. As India undertook a series of reforms in the early and mid-1990s, it opened new windows of opportunity for entrepreneurs across industries. Financial services, especially, saw several reforms like the setting up of SEBI as well as several fundamental changes in the industry itself, like the introduction of NSE. It was in this backdrop that we started Edelweiss, with the confidence in India's ability to provide very favourable tailwinds to those with patience. And provide it has!

In the 25 years since our inception, India's GDP has grown 8x from less than 0.4 trillion USD to 3 trillion USD. And this growth has not just been seen in the GDP. Total credit in the system has grown 28x while total deposits are estimated to be 38x! The mutual fund industry was non-existent at that point of time while today, the AUM stands at INR 34 trillion, still only a fraction of the GDP and much lesser than global counterparts. The index, in the same period, has also become ~16x, having been launched with a base value of 1,000 in 1996. These incredible growth trajectories have been driven by India's compounding triumvirate – ever-increasing size, strong growth rate and most importantly, the advantage of longevity. With growth expected to be back on track by next year, the compounding juggernaut is just getting started.

In the next 25 years, we expect GDP to run in a similar trajectory, albeit on a humongous scale. With a GDP of USD 25 trillion, India would potentially be bigger than the USA of today and probably the world's third largest economy at that point of time.



India's credit markets continue to be under-penetrated compared to the global economies. While the growth of credit markets in the last 25 years has been driven by corporate credit and the evolution of the banking sector, we expect the next 25 years to be driven by the growth of consumer and small business credit. NBFCs and new age fintechs will be at the vanguard of this change. This transformation is already visible and will only accelerate in the time to come.

Similarly, we expect other segments of market to show significant growth as well – be it Mutual Fund and Alternatives AUM, Housing Credit, Total Wealth – each one is expected to grow much faster than GDP as the current penetration in India continues to lag far behind global metrics. In Jeff Bezos' language, India is still only at Day 1!

₹ Trillion	2021	After 25 Years	
Total Credit	125	2,000	16x
MF AuM	34	800	24x
Alternatives AuM	2.5	40	16x
Housing Credit	20	400	20x
Total Wealth	300	9,000	30x
Insurance Premium	4.5	100	22x

Next 25 Years - Our Anchoring Focus

Bob Iger, in his memoirs of his time at ABC and subsequently Disney, serving as the CEO from 2005 till 2020 ('Ride of a Lifetime' – highly recommended!) mentions that as he became the CEO, while there were a lot of learnings from the past, his focus was really on defining the future – what would be the key anchors/ priorities that would define each decision that Disney made going forward. Our approach at Edelweiss has also been similar – while we have always been open about our missteps and learnings from those, the focus always remains on the future. Our anchoring focus, as we look ahead at the next 25 years, is on R+Q = G!

We are usually not into cryptic acronyms which leave our stakeholders wondering and second-guessing us on what we mean. However, "R+Q = G" has become like a veritable mantra for us at Edelweiss, especially in the last year or so as we have looked towards defining our approach for the next 25 years.

This might look a very simplistic representation of our objectives, but a lot of thought and discussion has gone behind this approach as also what lies underneath. Often in the past, we have worked towards growth, with the underlying assumption that this growth will eventually lead to quality and resilience. And in many instances, it has as well! And insomuch as no approach is perfect, we do feel that finding approaches that maximize the probability of success in long-term, even at the cost of short-term, is what truly leads to value creation. The movie 3 idiots put it in possibly the most rustic but straightforward manner –

Bachcha Kabil Bano, Kamyabi Toh Jhak Maarke Peeche Bhagegi

It is therefore with the intention of attaining this *'kaabiliyat'* that we are focused on building towards resilience and quality – growth is a by-product which will come, partly through the quality and partly through India's natural growth tendencies. So, what does Resilience and Quality mean for us?

This is obviously a journey and one which has been, in a way, underway for the last 25 years. Some of these aspects have been accorded the highest of priority in our journey, some not so much. However, our intent is to make these the cornerstones of our journey for the next 25 years with the underlying objective of achieving natural growth, backed by resilience and quality of the highest order. This is the Edelweiss of the future that we will strive to create for all of you.

Yours sincerely,

Rashesh Shah

Rashesh Shah
Chairman & MD