

EW/Sec/2020/188

September 1, 2020

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

Dear Sirs,

Ref.:- Symbol: EDELWEISS

Sub: Transcript of Earnings Call

Enclosed is the Transcript of the Earnings Call held on August 28, 2020, pertaining to the Financial Results of the Company for the first quarter ended June 30, 2020.

Kindly take the same on record.

Thanking you,

For Edelweiss Financial Services Limited


B. Renganathan
Executive Vice President & Company Secretary

Encl: a/a



Edelweiss Financial Services Limited
Q1FY21 Earnings Call Transcript

August 28, 2020

MANAGEMENT:

MR. RASHESH SHAH, CHAIRMAN AND CEO, EDELWEISS GROUP

MR. HIMANSHU KAJI, EXECUTIVE DIRECTOR AND GROUP COO,

MR. S. RANGANATHAN, GROUP CFO

MS. RAMYA RAJAGOPALAN, HEAD OF CORPORATE DEVELOPMENT

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Edelweiss Financial Services Limited Q1FY21 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. Thank you and over to you, Madam.

Ramya Rajagopalan: Thank you, Rayo, and Good Afternoon everyone. Welcome to our Q1FY21 Earnings Call. We hope you, your loved ones, and colleagues are all 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, and Mr. S. Ranganathan - Group CFO. During this call, we will be making references to the results presentation uploaded on the exchanges and on our website. We do hope you have had a chance to see it. Please do note that some of our statements on today's call may be forward-looking in nature and hence may involve risks and uncertainties. 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 and a very Good Afternoon to all of you. Thank you all for joining us on this call, once again another quarter is over and what a quarter it has been. Hope all of you are keeping safe, your families and everybody is well, and you are coping with this unprecedented, uncertain environment as all of us are trying to. This has been a very important quarter, so many developments have happened and we forget that this quarter is April-May-June of 2020, which was I think one of the most challenging quarters when you go back and think about how things were in April, the world looked very, very different and it seems like we have come a long way, so while we are revisiting our performance for this quarter, it is also important to remember that in the last few months all of us have come a long way from this unprecedented crisis that humanity has been faced with. Friends, today I want to talk about three things, Quarter 1 obviously, the Edelweiss Wealth Management transaction that we had announced as a partnership with PAG, and third - going forward how do we see the environment and the Edelweiss strategy. I am sure all of you will have many specific questions and we hope to answer that and also get feedback and inputs from all of you as we have always done in our earlier calls.

As I said, these are unprecedented times, I am sure all of you have experienced it and coped up with it. In this quarter, obviously the earnings still have a long way to come back. Overall, we are still simplifying our businesses because now as you would have seen in the presentation, we have six clear cut businesses. Edelweiss has grown up as one joint family system and we have worked with various permutations and combinations. At an individual level, lot of businesses were independent but now we have aligned entities and businesses completely and the six businesses that you see in Slide Number 5 of the investor presentation along with the entities, is the structure of Edelweiss - Corporate Credit, Retail Credit, Wealth Management, Asset Management, Life Insurance, and General Insurance. We are more than robustly capitalized across all these businesses and time and again we have shown that we can contribute capital, we can raise capital as we go along, so this quarter we have further simplified our businesses into

these six businesses. Also things have come back, but I must say that the business activity is not back to 100% of normal. If you ask me, on an average, we are at about 75% - 80% of normal activity from fee earning and other activity point of view. So, though I think things are back as compared to April-May where I think we were down to 50% - 60% of activity, we are now at 75% - 80% of activity.

We continue to grapple with bringing cost under control and there are three vectors on that - one is credit cost which obviously with COVID, we have always maintained that another 1% - 2% impairment will be there because of COVID and will continue to be there and because we have more than adequate capital in our credit businesses, we have followed a policy to continue to provide as much as we can, so that we are much stronger when COVID phase is getting over. We have to obviously focus on recoveries and all that is what we are strong at, so that will be the main area now. The other area of cost control is the operating cost. We were geared for a 30% - 35% growth in the last two years. As we were more focused on liquidity and equity, the focus on cost and profitability had been lower, but now that equity and liquidity have come in a comfort zone in the last three-four months, ironically in COVID time, liquidity and equity is the area that we feel more comfortable now. Now, we are focusing on cost-cutting, we spoke about it last quarter also and we have a fairly aggressive target to be able to rationalize cost using technology and streamlining businesses and processes and all, and you will see that as we go along in the next few quarters.

Third is our cost of capital which continues to be high. As you know, though bank credit flows have started getting back to normal, the bond markets are still very dislocated, commercial paper market is very dislocated. We hold a lot more equity and lot more liquidity that we should be holding. I think on an average for the last 18 months, we have held twice the required liquidity in normal times and partly it is because of the market conditions being so bad. You are all aware how volatile the liquidity environment has been and this higher liquidity that we are holding is creating and continues to create a drag on earnings, so I think lower growth, lower activity but the good achievement in this is we have done a very transformational transaction on our wealth management business. We have become stronger on liquidity, our NBFC has now actually enough liquidity for the next 18 months. As you know, we have been operating on one year of liquidity, now we have moved even further on that, so overall we remain comfortable on those counts and now that challenges around equity & liquidity is out of the way, the time has come to focus on profitability and growth and we think growth will come back from Q4 of FY21. March 2021 onwards we hope that we can put COVID behind us and look at growth for India, for financial services as a whole.

This quarter in spite of lockdown and all, we have done one of the fastest transactions in the wealth management space - fairly large deal has got done in spite of work from home and everybody being in lockdown. We are very happy that PAG, which is a great private equity firm, Asia wide with \$ 38 billion of assets under management is partnering with us and I use the word partnership with a lot of care because we are in this business. Edelweiss will continue to own more than 40% stake in that. We expect the stake to evolve at about 51% with PAG, another 40% - 41% with Edelweiss, and about 8% or so with Kora and Sanaka - they invested 300 crores

one year ago and though they have further tranches to invest, the business will not need further capital from them as we go along, so with this we expect that Edelweiss Group will have more than 40% holding which we eventually want to demerge and distribute those shares to the Edelweiss shareholders. We have been speaking about this for last couple of quarters and I think with this deal, we do simplify the business, get it very focused on wealth management, the business will become independent, the business has more than 200 odd crores of profit after tax and we think a lot of growth is there in this. This business also underscores our approach. We effectively started this business 20 years ago when we acquired Rooshnil Securities for about 8 crores, we paid 7.7 crores in 2000 to acquire Rooshnil Securities and what currently has been Edelweiss Wealth Management has grown with a lot of organic growth as well as the acquisition of Anagram and all in 2011. So, what we started off with 8 crores in 2000 is now being valued by a marquee investor at about approximately 4,500 crores, which is very gratifying because this underscores our ability to create value. With our plan to demerge this business and unlock the shareholder value, it also shows the commitment to shareholders that we have, that we want a lot of our Edelweiss shareholders to have direct ownership in this business going forward and we see the next 20 years a lot of growth in this business, this business is a very transformational place.

We are one of the largest wealth managers in India, we have AUA of more than 1,25,000 crores, but we do believe the best is yet to come and with a partner who not only brings capital, but brings expertise and all for us in this business and will allow us to make this business more independent, take it to its logical growth conclusion will be very gratifying, so we remain very, very excited on this business and we do believe that the Edelweiss shareholders will get a great upside in this business in the next few years as we unlock this shareholder value, and this capital that we get is also going to be useful for the group and for the business as a whole because as you know everybody is raising capital. Equity capital is required for all financial services businesses not just for COVID, but as you plan for growth post COVID. So, our approach has been that let us look at March 2021 and see after that what allows us to be strong, what allows us to grow, and what allows us to continue to create shareholder value. The last thing is going forward, we do see the environment is improving, the panic of April-May has gone away though COVID has not gone away. We do now think the liquidity conditions, the environment panic about COVID has come down, however, the bond markets are still dislocated, the bond markets still need according to us another two-four quarters for them to come back to some sort of normalcy and until then it is good to be cautious and careful, but remain optimistic.

We believe our approach in Edelweiss is to build businesses and we have a lot of vectors. Edelweiss Wealth Management is one of the six businesses we have. On the wholesale credit, we have always been clear that we want to scale back that business, use asset management as a platform for addressing the opportunities in wholesale credit and not in NBFC. NBFC as you can see on that Slide Number 5, we have more than 3,300 crores of equity in that wholesale credit business which is almost a third of Edelweiss equity in that business, so as we wind down the NBFC part of the wholesale credit, it will release more capital to us, but it will also give an opportunity for the asset management to launch more funds on the wholesale credit side. On retail credit, we remain optimistic. ERFL and EHFL, are the two entities where we address the

retail opportunity, both of them have a capital adequacy more than 20 odd percent, ERFL has a 29% capital adequacy, so we can effectively double the book size from here without needing any more equity and these are great businesses. We are not in a hurry to grow, we want to do it carefully because we do think that in the next two-three quarters, a lot of the credit environment will change as we understand the post-COVID, post-moratorium environment, but there will be opportunities and we are poised to grab that.

In our asset management, we now have nearly reached a one lakh crores of assets under management across the verticals of alternatives, passives, mutual fund, and ARC. All over the world, we are seeing a lot of growth in asset management in both the passive side where we are now leaders in credit passive with Bharat bond ETFs and all, and in alternatives, we are the leading player with more than \$ 4 billion of assets under management in alternative strategies. So, we do think that asset management poses a lot of growth opportunity for us and our last two business in life insurance and general insurance businesses have had their best quarter, April-May-June has been the best quarter in a relative sense. Our life insurance business was the second highest growing company in the industry, very few companies in the life insurance business have clocked positive growth for the first quarter. We have grown positively in spite of lockdown, in spite of the work from home, Edelweiss Tokio Life has registered robust growth in the first quarter and the same thing for the general insurance business. Our general insurance business was the fastest growing insurance company in the first quarter and both these businesses are using strong customer focus from technology. Our general insurance business is built like a fintech. It started about two years ago, so we had the opportunity to use the best-in-class financial technologies available for building a very tech-oriented, digital general insurance business. We have lot of things to grow. This deal allows us capital for a lot of our businesses including asset management, wealth management, and the insurance businesses. As we have said, our credit businesses remain adequately capitalized. There we have to be in sync with what is happening in the credit environment, but the other four businesses - asset, wealth, life, and general will also benefit out of this deal with the capital availability and overall at Edelweiss our idea is to be capital surplus. At this time, you do not want to be capital adequate, you want to be capital surplus and with this deal even at the Edelweiss Financial Services level, we expect to have surplus capital which can be used for various ways of creating shareholder value. So, Friends with that, I think India will come back to growth. I think this has been a very challenging year and it has been a very challenging quarter and we in Edelweiss will continue to focus on simplification of our businesses. In the last two years, while the ILFS crisis and NBFC dislocation was going on, we have continued to simplify our corporate structure, continue to simplify our businesses, got in some great partners, made sure we are capital surplus and liquidity surplus so that we do not have to worry about those things and we can as and when growth comes back focus on growth again. I think with that, we have a lot of details in the presentation so I did not want to go through the financial details and all, but we will welcome inputs and questions from you after this. Thank you very much all of you once again for being on this call.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Pratamesh Savant from Trinetra Capital Advisors. Please go ahead.

Pratamesh Savant: Sir, I wanted to know what was the valuation of this deal that you have done with PAG, so would it be right to say it was sold at 18.6 times your FY21 earnings?

Rashesh Shah: FY21 earnings are still uncertain because as you see in the first quarter and obviously because the bond markets are dislocated, the loan against share book has come down, so we are not looking at FY21, we are looking at beyond that and we do think that the benchmark is around 20 times price earnings ratio for FY21, but as I said FY21 earnings are going to be uncertain, but we also want to continue to invest in the business, so our focus for the next two years is not only going to be on earnings and PAT, but going to be more on investing in technology, investing in customer acquisition and all of that because we do think that post COVID, post March FY21, there is going to be a huge growth opportunity and the ability to capture that growth is going to be very important and our approach has always been that we have not been short term profit focused, but we have been more long-term and that was one of the problem because as long as you consider Edelweiss Financial Services as one entity, though as you see the past, we have been having a loss in the insurance business, even the wealth management business did not make profit until 2015, but we continue to invest in that and that is what I am saying over last 20 years, we have built a lot of value in that, so our idea is to focus on long-term value creation rather than profit only, so the P/E multiple is not the best way to look at it. A year ago when we had done the EGIA deal which was the asset and wealth management together one year ago with Kora-Sanaka, the deal was at a floor of 6,000 and a cap of 10,000 and we had expected the valuation to be around 8,000 when it gets converted if you remember that about a year ago, it was about 8,000 crores for asset and wealth put together. Our approach has always been that half that value is because of wealth and half that value is because of asset, so we consider that about 4,000 to 5,000 crores should be the value of the wealth management business and 4,000 to 5,000 crores should be the value of the asset management business - ARC, alternatives, and our mutual fund. out there, so I think in the last one year when we did the Kora-Sanaka deal though the markets have come down, Edelweiss stock prices is currently lower than what it was then. We think this business, the asset and wealth management business collectively, the benchmark of 8,000 crores should continue and we have approached it from that point of view.

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

Jeetu Panjabi: Sir, I missed the first five minutes, I do not know if you talked about this, but what I would love to understand a little better is what is the roadmap for, if PAG takes a stake, does this spin-off as a separate company and list separately, two, what is the roadmap for the rest of the businesses, do they stay together or they get listed separately, just a little bit of color on what is the thinking on the listing and what is the roadmap for the different entities in that business as well?

Rashesh Shah: I think that is an important question, I am sure all the stakeholders would like more color on that, so first Jeetu on EWM transaction, I have been very clear we want to demerge this business and distribute the shares to the Edelweiss shareholders and we have been focused on that and this PAG partnership will expedite that process for us because the business will become independent much faster, but while it is becoming independent, it will continue to grow because it will have

capital and focused attention from a partner like PAG, and we expect to list this business in the near future and distribute the shares via demerger to our shareholders, so that is the plan on EWM, and actually that is why whether we sold 30% or 40% or 50%, it did not matter because as you know Edelweiss is a widely held company and for us idea is not to have a controlling stake from Edelweiss, but we would rather distribute the shares to the shareholders of Edelweiss, which all of us including the Management and the founders also think like shareholders of the business, so this will be a value unlocking approach for the Edelweiss shareholders and I think a lot of shareholders have given me feedback that they will be very happy to have a direct exposure into this business as and when it gets listed and it will be very beneficial for them.

On the larger Edelweiss, our approach has been to build businesses, as I give the example of this also, this Edelweiss Wealth Management business that is currently being carved out that was started effectively in 2000 when we acquired Rooshnil Securities and we acquired it for about 7.7 crores, so effectively from that 7.7 crores organically and inorganically with acquiring Anagram along the way and all that, we have built a business that is worth about 4,500 crores now, so that is very, very gratifying. So, our approach has been to keep on building businesses and then unlock the value in the best possible manner. So you have seen that in our insurance business, we have a joint venture with Tokio Marine, maybe at a future date that business may list or maybe Tokio Marine may increase their stake or buyout or some other investors can, if we think that is the best way to unlock value for shareholders, because in financial services, control is actually very notional. Even today when a bank owns an insurance company and the insurance company is listed, even if the banks owns 75% of that insurance company, the insurance company is an independent company, it has its own Board, so whether you are listed or not listed, all financial services companies will be independently regulated, they will have their own Boards and that is our approach because that is the path to the future.

Our approach is that all businesses are independent, all the six businesses that you see they have their own investors, partners, with a strong governance out there, they have their own balance sheets also because if we have extra capital in ARC, we cannot use it for insurance. If we have extra money in insurance, we cannot use it for NBFC, so as it is in a good way and I think it is a good structure India has that all businesses are ring-fenced and are not co-mingled with each other which allows all businesses to grow independently and having partners in each business is the best way forward. So going forward we will be open like in ARC also, we have got other shareholders and investors, in credit we have got CDPQ as a big investor, so whatever is the path whether listing via IPO, whether listing via demerger, whether strategic JV partnerships, we will look at all formats that are there to create value. We do not come from control-oriented because we do not need to consolidate earnings in Edelweiss or we do not need to keep control out there, we are very happy being shareholders and adding value as shareholders to grow the businesses and we have seen formats like that. I think HDFC promoted HDFC Bank which has been a great success story, so I think that is the model in financial services going forward, so we have Edelweiss Wealth Management plus five other businesses, a lot of them will have its own opportunities, its own partnership prospects to go forward.

Moderator: Thank you. The next question is from the line of Vikas Khemani from Carnelian Capital. Please go ahead.

Vikas Khemani: First of all congratulations, I remember in the last call you said that it will conclude in six to eight weeks' time and I think it is a great achievement in times like this, so I hope that a lot of pain behind in terms of at least capitalizing the business when the COVID is there. My question, Rashesh, more is on the credit side of the business, our problem started with concentrated exposure towards the real estate and the real estate sector went into trouble and most of our lending was towards the project based lending, so as the project got stuck and you all did not get the flow then and it has kind of had NPA impact on the portfolio and that led to the whole cascading impact including the liquidity, now with interest rates coming down at least the hypothesis we have and I do not know what is your view, I would love to get your view as well on that that the real estate recovery is on the anvil at least we are seeing that on the ground. We have provided almost close to 3,000, 4,000, 5,000 crores around the range of that number on the books, so do you see on the credit side what was kind of putting stress on us as a company as the environment changes, if the environment changes the same value which got lost can come back over next one to three years, then that itself recapitalize the whole business, so what is your view, I know it is a long question, but may be a little bit of complex.....

Rashesh Shah: No, it is an important question because ultimately everything moves in cycles and we have had cycles in almost all parts of India and there are cycles up and down, so I think real estate and wholesale credit whether it is project like a lot of bank NPAs happened on project financing, infrastructure financing, so basically there were long-term assets getting funded and because of the market environment, the economic slowdown as well as the liquidity crisis, the monetization, the servicing of a lot of those loans started becoming a challenge, so that is absolutely true. I think your assessment is absolutely right. We did see the impact of that, a lot of that even now according to us continues to be delayed because of liquidity as well as there is a slowdown in the economy. We are starting to see an uptick, in fact ironically COVID time actually real estate has not done that badly especially after May. June, July, and August have been relatively good months for real estate when you talk to the industry people, but again the key is on completing the projects and for completing the projects liquidity is very important, so I think as interest rates have come down and as liquidity eases off, one of the good things I have seen in the last one to one-and-a-half months is bank funding for real estate projects has started coming back, leading banks like State Bank and all that are starting to look at good viable projects and starting to lend to real estate projects once again. So the banks had stopped lending four-five years ago and NBFCs had started. Last couple of years NBFCs have stopped lending and that also impacted there because neither banks or NBFCs were giving credit for this industry and housing is a big part of the economy, but in the last one to one-and-a-half month maybe because of liquidity and interest rates coming down, banks have been very open to looking at viable projects and even the private sector banks are actually scaling up their real estate exposure, so I think that this is the good news and I remain confident that as liquidity improves, I think the projects will get completed and will find buyers and given that we have enough collateral cover, we remain confident on the collateral. As you very correctly said, collateral is not a problem, servicing and cash flow has been a problem especially in the last two years. We hope that maybe in the next

two-three quarters that starts going away and we are seeing actually good demand across all of that. Earlier, we were seeing good demand in the affordable segment, which was below a crore of Rupees but now even in the segment which are 5 to 10 crores for a place like Bombay, we are seeing very robust demand where people are buying 5 to 6 crores worth of apartments and all, so I hope that this interest rate, affordability all of that also leads to revival of the real estate not only for our own sake, which obviously will help us a lot but for the economy as a whole because real estate has a lot of spin-off linkages with the economy. You are absolutely right, I think it will help us but what we have done is, we have anyway ring-fenced that business, even if there is a lot of capital and a lot of liquidity there, so we have holding power on that book that if at all instead of revival in a couple of quarters it takes four or five quarters, there is enough holding power on that, we have provided, we hold liquidity, we have enough equity because that is what was required, given that everything became very illiquid. While our other businesses continue to be independent of that and they continue to have a lot of growth prospects on that and that is the key thing that we have simplified. We have actually made all the businesses independent, so any trouble of one business should not affect the other one or the growth of one business which should not slowdown anybody else.

Vikas Khemani:

Just help me understand, if this is a correct Math, suppose assume the project for loan for Rs. 100 we have written it down or provided for, let us say 30-40 cents because I think last quarter you took a fairly large amount. Now assuming that the project comes back and it starts generating cash flow, you will not only recover your principal you would also accrue the interest, so potentially if I were take two-three years of accrued interest that 30-40 cents have a potential to become 1.4x-1.5x assuming that everything works right, nobody knows that, but is that how one should understand that this journey is potentially possible?

Rashesh Shah:

It varies from project to project but if you see the history of this credit cost in India like if you look at Essar Steel, Binani Cement, the banks marked down Essar Steel from 100 to zero and ended up recovering 80, so that is what happens in a lot of these loans, in fact that is why we believe that wholesale credit should be a close-ended fund because over a five-year or seven-year of a loan, you make good returns but you make returns for first two years then if the loan goes bad, you provide for the next two-three years and as you correctly said, end up over providing because that is how the rules are and that is how conservatism should work and if things recover, you recover it back in the end and that gives a lot of volatility to an NBFC or a quarterly kind of format like an NBFC is for the investors, because they cannot see the return of a loan over a five year, seven-year period. So in a way doing this in a fund format where you have investors who are coming into the fund and AIF format is the best one because over five years or seven years, investors will say I have made a 14%-15% IRR, it has not been a steady 14%-15% over the five-six years, but that is why we think wholesale credit even infrastructure and all is a lot of opportunity, but in a closed ended fund format in an AIF format not in an NBFC format. So you are absolutely right, I think we will just have to wait for the next two-three quarters because COVID is not yet over. We are all getting optimistic and I think the trends are there, the green shoots are there, so idea is to remain optimistic, but still cautious, so I would wait for the next two quarters and if this trend what you are seeing and I am seeing continues in real estate, I think it will augur very well. It might be like 2003 and 2004, the last real revival I

saw from really low depths of real estate in 2003 to really a big revival in 2004 was one of the fastest ones I remember. That time I was slightly younger and all, but it was amazing to watch that in one year the entire outlook on real estate underwent a change from 2003 to 2004, so it could be that but I think we just to wait for the next couple of quarters and I think Government stimulus and what recently Maharashtra did of cutting stamp duty from 5% to 2%, all these are good moves that will only help the cause.

Vikas Khemani:

Another follow up, we have a very large asset management business which is not part of this transaction, almost close to 60,000-70,000 crores of assets there, so do we also plan to list that separately at some point in time so that you can have a credit vertical, asset management advisory all three listed, as that can also create lot of value for the shareholders because that was size and scale business?

Rashesh Shah:

Vikas, we have all grown in capital markets, so I think listed entities have a lot of advantages and I think as entities become large and independent, they should be standalone and listed because the governance focus and having this kind of analyst call and all keeps you very focused and helps a lot to make sure all the interest of the stakeholders are protected. We do think Edelweiss is now today 25 years old and we have been like a joint family system up till now. The first 25 years everything was integrated, we were like one house everybody stayed, but now the kids have grown up, now the businesses have grown up. I mean Edelweiss Wealth Management is 4,500 crores value company which I think is larger than what Edelweiss was a few years ago, so the businesses are becoming stronger and all and we remain not very control oriented, we do not believe in having a controlling stake. There is no one group that controls this. Our idea is to create value, unlock value in the best possible way, so we will think like shareholders. You are correct that I think asset management and even insurance and all can be great format, but do we have to list them, if tomorrow somebody comes and gives you a great price to buy 30%, 40%, 50%-70% even maybe 100%, somebody gives you a great price to buy business and you think you can take that money and grow the other parts of the businesses well, in the interest of the shareholders you should consider that, but absence of that I agree with you, we would want all the businesses to be independently listed and Edelweiss shareholders to have direct exposure in all these businesses because we do not want to be a conglomerate. It is a good way to start, I think businesses in early days need the support of the parent, like the kids need the support of the parent in the growing years, but eventually they have to become independent and that is the best thing for them in the long run.

Moderator:

Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah:

Congratulations to the entire team for the deal. So firstly in terms of looking at the businesses, so obviously the wealth management, AMC as well as ARC being a fee-based, was there a discussion regarding maybe even the ARC and AMC as well? And from which side may be from PAG side they were not in or we were not in on maybe selling off stakes or maybe giving out the control in ARC and AMC?

Rashesh Shah:

Actually, a lot of our thinking has not been led by control. If you remember one year ago when we formed EGIA, it was asset and wealth combined and at that time the plan was to demerge that and list that also and when we did Kora-Sanaka deal, we expected the valuation of asset and wealth both of them combined to be around 8,000 crores between 6,000 to 10,000 crores depending on the conversion formula, but we had benchmarked it at 8,000 crores as a value of asset and wealth. They were two entities, Edelweiss Asset Management and Edelweiss Wealth Management. Edelweiss Asset Management as you see in the Slide 5 of the presentation, houses ARC, AMC, EAAA, all of that. In our mind, the valuation is about half and half between both of them that Edelweiss Wealth is about 4,000-4,500 crores, Edelweiss Asset Management is also 4,000-4,500 crores, so we had approached it from that point and our original plan was to list asset and wealth together. But a lot of investor feedback, analyst feedback from people like you, we got was that it is actually better to keep them both separate because that could become like another conglomerate and will not allow investors to get a pure access to a wealth management play or an asset management play, so by unbundling the two, actually according to us will lead to higher value creation because especially in the last one year, we have realized that wealth management is a huge headroom for growth on its own and actually firms like ISEC and all have shown the path and the same thing is true with asset management. They can do acquisitions if they have currency and all that. So we have realized that actually rather than asset and wealth and the one which was slightly more complex, the way the businesses have grown in the last one year keeping them both independent is very good.

We had said we want to raise about 1,500 to 2,000 crores and by doing this deal in wealth management, we have achieved all those objectives, so we are not very control oriented, we are very value oriented, we want to build businesses, we have shown again and again. We started our ARC with 10 crores of capital, today the net worth of ARC is 2,000 crores, this EWM business we started 20 years ago, same thing asset management, we have actually grown that very organically and we have now crossed almost 70,000 crores of AUM. So our idea is to build businesses because we believe that if you build businesses, value gets created and then how you unlock it is more tactical rather than a very formula based approach. But how to build businesses is the core of this, because if you can build businesses, get great management teams, identify the right opportunity, give them the right resources, hand hold them in the early years, and give them the path to independence, I think it is the best way to harness the opportunities in which we are.

Kunal Shah:

Secondly, in terms of the money that comes in, so that stays with EWM itself and it will be within that entity and what would be the utilization of that sum which would get in of say 51% we will get 2,200 odd crores? And second question is on ARC, so if you can just help us understand in terms of how the resolution is going given this kind of COVID pandemic and would there be more provisioning because of the delays and all which is being caused, so how would the ARC business get impacted because of the disruption over last six months?

Rashesh Shah:

I think on the use of capital out of this whatever 2,200 odd crores that will come in, we expect about 400 crores and all will be required for the wealth management business to capitalize it. As you can see wealth management business has about 1,000 crores of equity now and another 400 crores is allowing to actually double from here, so that is actually the plan for that. The other

capital we will also retire some outstanding debt in Edelweiss because over the years, we have also have about 5,000 crores of debt that we want to retire at the holdco level because now the businesses have grown. We had invested in the businesses over the years, but now that the businesses are independent, we can allow them to raise their own capital and partly will be also used for asset management and insurance and other investment because if we give 100 to 200 crores to each of these businesses over the next few years, there is a lot of growth. We do not expect to use this capital for the credit business at all, because credit businesses as you can see are very robustly capitalized. The capital adequacy for ECL Finance, ERFL, EHFL is more than 20% between 21% to 29% is the capital adequacy out there and we are going to have very calibrated growth out there, so we are not looking at very fast growth in the credit business. In fact, wholesale will scale down, retail will grow, so we will not need capital and over the next three years, we hope to release capital from the credit business. But while it happens over the three years, this capital will be enough to now provide enough capital support to all our growth businesses and growth aspirations and the amounts are not large, we need 100-200 crores for all these businesses and this gives us enough room for that.

The second question you had was on impairment cost. I think a lot of that is dependent on COVID. We do think that some impairment cost will go up across for everybody. All credit entities whether they are banks, whether they are NBFCs, whether they are ARCs, between 1% to 2% of additional cost will be something people should factor in and when I say 1% to 2% of the assets is what people should factor in, but I think if interest rates remain low, if liquidity remains easy and the economy revives, I think it will be something that everybody is prepared for, people are starting to provide, people are starting to raise equity. If you look at most of the banks there raising equity which is between 2% to 4% of their asset base and when we talk to banks, their estimate is that between 1% to 2% of their asset base will be the additional credit cost because of COVID, so I think using that as a rule of thumb, we think banks and NBFCs and ARCs are adequately capitalized for this.

Kunal Shah: In terms of the IRR of ARC, how does it get impacted maybe compared to what the expectations were, so maybe if you are working at particular IRR, how much do we think it will get adversely impacted because of this kind of an environment particularly for ARC?

Rashesh Shah: ARC we have always looked at about 20% kind of IRR because of fee plus the capital that you deploy because you earn interest income also and you get fee income also, about two-thirds is fee income and only one-third is interest income, so it is not a very interest led model, it is a very fee-led model. We expect that IRRs as interest rates have come down, what was a 20% IRR can come to 18 or 19, the 1% to 2% fall in expected IRRs will happen that is given, but your cost of funding might also come down. Also, I think post COVID, there might be some very select, very good opportunities which might be very interesting and we do believe that India I think the manufacturing sector, the infrastructure sector also will have a big revival couple of years down the line, so if you can get some good assets and be able to revive them or restructure them like what we did with Binani Cement and Essar Steel and others, we think there could be upside on that, but our benchmark used to be 20, I think now we will become 18-19 and there are deals where we have made more than 24-25 also where you get the upside, so I think we will continue

on that basis of keeping the benchmark in that range, but I think our 100 to 200 basis points lower yields will be par for the course.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Thanks for the opportunity, so on capital I had a follow up question, so what is the timeline on the second tranche of money from CDPQ and the other question I had was if you can just confirm the residual stakes of Edelweiss across the credit business, ARC and asset management because there has been CCD structures in some of these businesses, so if you could just confirm the residual stakes as well?

Rashesh Shah: Sure, on the first as I said our credit businesses are more than adequately capitalized and when we had raised the CDPQ money, the idea was to grow the retail credit business, but because of COVID and everything else and because we have scaled down wholesale much faster than what was the plan at that time, we are reworking our capital needs because as you know ERFL, EHFL are at 23% and 29% capital adequacy, so there is a lot of capital out there and our idea is to have capital only when you need for growth. I think we will wait for a couple of quarters before we decide how much more capital is required in the credit business because in ECL finance, we do not need any more capital because as you know we are scaling down that business for the wholesale book. In ERFL and EHFL, as you have seen in the presentation, we have a lot of capital adequacy, in fact much more than what we need for the next 18 months. So we will by March I think work out the needs of capital for the credit business. Currently we do not see any need for the next one year given the calibrated and controlled growth plans we have for the credit business. In other businesses as I said, I think in the wealth management business, we expect Kora-Sanaka to be about 8% or so, Edelweiss will be 41% - 42% and 51% will be PAG and the Edelweiss stake will be expected to be distributed amongst the Edelweiss shareholders as we go towards demerger of this business and we will start that process. In ARC we continue to own 60% and we own 100% of alternative asset and AMC business in asset management. Edelweiss Tokio Life we own 51% and general insurance we own 100%. So in a way I think as I said we will follow a partnership model in all our businesses, so the stakes will vary and as I said we are not that much focused on whether it is 40% stake or 50% stake or 36% stake, we are more focused on creating value in this business and unlocking it, and that we remain committed that we will unlock the value and reward the shareholders of Edelweiss as we go along in that because Edelweiss shareholders should eventually have direct ownership in all these businesses at an appropriate point of time because as I said earlier, the businesses need initially the handholding and ability to grow, but eventually they should be listed independently whether via IPO or via demerger and that plan we will continue to pursue.

Subramanian Iyer: Thanks for that. On credit business, I had a follow up question, so in retail credit you are obviously exploring co-origination route so what is Plan B there, if at all co-origination does not pick up then what are your plans for that business, and the other question I had was on the BMU vertical, what kind of recurrent loss should we model in that business line?

Rashesh Shah:

On the first one on the credit co-origination model, I think everybody is working and in fact last couple of months there have been a lot of work going on with the banks on improving the co-origination model, so co-origination is the catch hold phrase for evolving partnership of banks, so lot of banks also experimenting that. You originate, keep it on your books for six months and automatically goes down because at the stage of origination, the banks have effectively approved, but the banks have not put in the money, while other co-origination is this 80:20 model that we are all talking about and the other co-origination is banks give you very specific lines of credit for specific products and you use that like a revolving line, you originate using that bank line, get the credit, package it, and keep on selling it to the bank. So there are various models that we evolve, but the overall approach is that retail credit we think should not be geared at more than three to four times and should be very granular and should have a backend partnership with banks and we do think that for the PSU banks and especially PSU banks in areas like where it is priority sector lending in SMEs, home loans and affordable housing and all is where there is a lot of opportunity. We continue to hear from PSU banks that any format of partnership for this kind of categories is what they are very keen on, so you will need a balance sheet, you will need an ability to originate, underwrite and all, but you will not be like a bank, you do not have to be like a bank where you just keep on growing your balance sheet per se. So growth will be AUM led rather than balance sheet led, so we will continue, we are seeing a lot of opportunity especially with PSU banks because PSU banks post COVID have realized that there are lot of areas that they can partner with NBFCs and they want to because they have got excess capital, they have got excess liquidity. NBFC strength is not going to be capital especially NBFCs like us where we are professional first-generation entrepreneur, we are not a business house, so we do not want to use capital as the strength, we want to use our ability to go to market, focus on niche segments, understand customer needs, do the right kind of underwriting and even today in the last three-four months in COVID period, our retail portfolio has continued to do very well and a lot of that we have sold to banks. Banks are experiencing it that portfolio continues to hold up well, so we do think that the retail credit will be more partnership with banks in many, many formats and wholesale credit will become AIF and asset management that we think is our approach to credit. It is not the only approach I think, different companies will have different approaches based on their current format and circumstances and all. We think for us, this is the best possible that in retail credit partner with banks, in wholesale credit become an asset manager.

Subramanian Iyer:

Thanks, the second question was on the BMU line, what kind of recurrent loss should we model there?

Rashesh Shah:

I think as long as we hold excess capital, that is part of that losses the excess capital that the group continues to hold, excess liquidity that we continue to hold and even today we are holding about 3,000 odd crores of excess liquidity, which is more caution or you can call it an insurance payment that we are making, so that itself is about 200 odd crores year plus we have used this quarter to also take some impairment on the investments that we have at the group level, so I think on a steady state basis by fourth quarter, we are working towards making the BMU also flat, maybe 30-40 crores recurring loss may be the format on that. But our approach is that the BMU should become profit neutral as we cut cost, as we align because currently in the last two

years as the businesses have become independent, we have built capacity out there, but the corporate and BMU still carries a lot of those cost, which will slowly get into the businesses as we go along and as they start growing again, so we think by fourth quarter, we would like the BMU to be flat or maybe a 30-40 crores loss per quarter if we continue to hold excess liquidity. I think the need for holding excess liquidity will go away by then, I think the next two-three quarters, we get a sense that the turnaround has happened and ironically the turnaround happened in the COVID period which was the most stressful for NBFCs from a liquidity point of view. I think the NBFC sector and the financial services sector at least on liquidity has made a U-turn and we are seeing that. The bond markets will take another three-four quarters to come back to stability, but otherwise I think credit flows and all have improved, so I do not think by March you will need to hold a lot of excess liquidity also.

Subramanian Iyer: Thanks, Rashesh, wish you all the best.

Rashesh Shah: Thank you.

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

Aditya Jain: Thank you, in the wealth management business you mentioned Kora-Sanaka will have 8% stake, so they will not have any presence in ARC and asset management, is that the understanding now?

Rashesh Shah: That is what they have orally indicated, because there is no immediate plan to list that business, they would rather be in wealth management where there is now a clear plan to get listed because they are actually more public market funds, so they would like public market listing as fast as possible and on asset management and ARC as we said, eventually we want all the businesses to be listed, but there is currently no concrete plan on that, but we are in conversation with them and they have indicated that they would like to remain in the wealth management only and not have an unlisted asset management investment exposure and we are also happy with that because we do not need the additional tranches of capital. When we raised Kora-Sanaka money, they were going to invest about 900 crores in three tranches, only the first tranche has come in. We have not even taken the second and the third tranche, so only the first tranche has been taken and with this deal happening, our need for tranche two or tranche three have gone away, we do not need those tranches at all and it helps everybody because the idea is to make sure enough capital is available for the business and you have a strong partner, which we have achieved with this deal. Effectively, the 300 crores that they invested should translate into about 8 odd percent stake in the wealth management business.

Aditya Jain: Got it, that is as per the 4,400 crores valuation?

Rashesh Shah: As per the conversion formula that we have with them because that was combined for asset and wealth, so we will tweak it around and I think ultimately this is also arithmetic, that is why we said, we will just convert that and they will remain in wealth management.

Aditya Jain: On the use of the proceeds of this 2,200 crores, you mentioned some amount will be used to repay debt at the group level, so could you just talk about outside of the fixed operating entities which are mentioned earlier in the presentation, how much is the debt which is there at the group level and maybe if there are any loans or investments outside of these six entities, what will be the amounts of these three things, the debt, investments....

Rashesh Shah: If you see, the group entity is more like a core investment company, it is like a CIC and we have a capital base of close to about 6,000 crores at that level and by RBI rules CIC can be geared 2.5 times, so on a 6,000 crore equity base, you can be up to 15,000 crores of borrowing. We currently have the net borrowing of about 4,500 crores at the group level out of which 2,000 with this equity coming in about 1,800 crores or so will come down because of this. Along with that, we also have some investments and all of about 1,000 crores which are investments in the funds - we are also limited partner in the funds and all, a lot of that will come back, so we have another 1,000 crores of investment and we have about 1,500 crores of real estate investments, which is office building and all that which are also owned by the group, so this is the asset composition. We have investments, we have real estate, office premises and all that and we have the loans that we have used to invest in the businesses, so we do expect the group should in the next couple of years go towards, the loan should be only equal to the real estate office spaces that we own and that also we can do a sale and lease back and convert into a REIT so the target for the group is to be effectively debt neutral in the next two to three years and this is important because this will make it almost half and then as we sell those investments in the next one year, it will come down even further because as I said the first phase of Edelweiss where the group not only started businesses, but also provided capital support to the businesses. Now, I think the group will become more and more capital surplus, which you can use for dividend, for stock buyback. The idea is that the group should become very capital light and the businesses should not depend on the group for capital going forward, they should be able to forge their own partnerships and grow independently.

Aditya Jain: Lastly from my side, on the insurance businesses, what is the view let us say you talked about the strategic intent over there, partnerships and maybe this thing in the long-term, but what capital needs would you see in those businesses over the next one to two years?

Rashesh Shah: As I said, out of this 2,000 crores that we are raising, we do expect that about 400-500 crores will be allocated for the next two years' growth requirements for the asset management and insurance businesses. We do not expect to invest in the credit business, but asset management and insurance, we want to allocate about 400 to 500 crores over the next two-three years for that business. The balance part of it will go to the wealth management business and another 800-900 crores will go towards repayment of debt at the group level, so that is how we plan to allocate. We will repay more and if the businesses raise their own capital, insurance and asset management, then they will not need the group money at all, so we are making sure that we have a little bit of capital to give them, but we will explore options for them to be able to raise money on their own also because as I said over the years we have said that we are not the primary call for capital for the group, we want to help them start businesses, but having a little bit of capital will give them the comfort and the support that if a general insurance business needs 100 crores

investment for the next 18 months, we have the money but they will also explore strategic partnerships and private equity investors to make sure that they also become independent, as I said there was a first 25 year format of Edelweiss which was like a joint family system, now we increasingly want the businesses to scale up and stand up on their own and I think it is a great time for the business because they will really forge their own paths and the pressure on group for capital and all will also come down and that will be good for the shareholders of Edelweiss because we will now be able to distribute, we will now be able to give back capital via shares and via dividend and buybacks and all to our shareholders rather than continue to have to invest in businesses all the time.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: I have one question on the restructuring bit, Sir will the one-time restructuring be very generously used on the real estate book?

Rashesh Shah: I think all of us are very clear, it will be very specifically used and it will be on a case-by-case basis because ultimately restructuring is not the answer, the cash flow is the answer, so you look at the cash flow and do restructuring on that basis and that is what we have been doing. Actually, fortunately for wholesale last 18 months have gone in that only because we have looked at project after project after project and looked at the individual cash flows of the project, you are not just doing a generic restructuring. You can do that in retail to an extent, but even in retail, I think in April we had about 45% of the retail customers under moratorium that has come to below 25% now, so I think retail also may not require a lot of restructuring because there is Government scheme on MSME loans and all that and a lot of our retail is SME and home loans and both of them are actually not as impacted as maybe other sectors like unsecured loans and all, so I do not expect a lot of wholesale restructuring to happen.

Mahrukh Adajania: Okay, and in securitization, any deal is in the pipeline?

Rashesh Shah: Yeah, as I said on retail we will continue to do that, so we continue to do that all the time as we go along because in retail we want to partner with banks and we are doing specific partnerships with many banks on specific programs on product lines and all, so that we are clear, we do not want to overuse our balance sheet. I think what we have learned in the last two years is that being more capital efficient is actually a better model, you may have to work a little bit harder because it is very easy to just scale up the balance sheet especially in good times, but I think scaling up balance sheet and asset base and say 50,000 crores, one lakh crores, may not be the long-term answer for a non-bank. I think the long-term answer is to build fee and commission income and all of that and by the way globally that is what banks are also doing. Even global banks are saying fee and commission income is more important than just growing the asset and the balance sheet. So as capital becomes not the real driver, but more your fee and other income, I think even credit, NBFCs and all will drive that where you will partner with banks and really in India fortunately there is opportunity. The PSU banks are looking for partners, they have a lot of capital, they have a lot of appetite, but they have only so much reach and given their limitations,

their ability to partner with NBFCs could be a good one. It will take time, any partnership takes time, any partnership takes a lot of effort, but we do believe for us the going forward model on retail credit will be partnerships with banks.

Mahrukh Adajania: In wholesale, any securitization deal?

Rashesh Shah: That as we said last time, Mahrukh, our objective on wholesale is to bring down the book, so as we are getting repayments also, but if you can do an asset sale, it releases equity capital for us. We have 3,300 crores of equity in the wholesale business. If we can release that as fast as possible that will be good for our shareholders, so we will continue to look for opportunities to sell down the wholesale portfolio and we have said we will bring it down in the next two years, organically and inorganically, so we remain committed to that.

Moderator: Thank you. We take the last question from the line of Kshitiz Prasad from Maybank. Please go ahead.

Kshitiz Prasad: Congratulations on the transaction. Just wanted to check with you, you said that in the asset management, ARC will have 60% Edelweiss shareholding and if that is between asset management and ARC, how much would that be, how much stake Edelweiss will have in both these entities, one was that? The other question was that how do you see the trend in the ARC portfolio right now given the environment which we are in and how that thing will span out and what is the current corpus, not the recovery but the corpus in that business?

Rashesh Shah: First in the mutual fund and alternative asset advisors, we own almost 100% in those businesses, EAAA we own 95%, one of our large LPs owns 5% and in ARC we own 60%. As you know, we started ARC with 49% because that was RBI rule then and from 49 we have to come to 60%. ARC is the one where there is a lot of equity capital, we have about 2,000 crores of equity in that business. The other ones, EAAA and the mutual fund don't require a lot of capital, so that is our holding structure on the asset management vertical that we have. To answer your question on ARC, we are seeing some very interesting opportunities because I think post COVID, in fact ironically this quarter has also been good on recoveries for the ARC and we have close to about 45,000 crores of assets under management on that. In the last four years, we have recovered 20,000 crores and we expect to keep that pace up even going forward because a lot of assets are very good assets. So, we do think that ARC is and continues to be a good model. We have adequate capital for that, but the whole of asset management space is undergoing a transformation and in the emerging areas of both passives, credit structures like bond ETFs and all, as well as on alternative asset management, we have a strong pole position in that which we want to exploit as we go forward. So, I think overall we remain optimistic on that and I think this quarter has been very simplifying from an overall structure point of view for us because now we have these clear vertical businesses, which have their own growth plans.

Kshitiz Prasad: Mr. Shah the other question on ARC was due to the IBC and NCLT and this current environment, do you see that can have an impact on the recovery and the overall business or it is just a temporary blip which you may see in this financial year, that is the question I wanted to ask

about, how do you see this evolving in an environment as far as IBC and the NCLT aspects are concerned?

Rashesh Shah:

Actually, IBC and NCLT are great ones, but we do believe that not all NPAs or not all revivals need an IBC or NCLT, there are some which can be done much better outside of that. But I think NCLT-IBC is a good tool to have in your toolkit because that is your final option. You can especially in cases where the change in management is required and the management is non-cooperative, an IBC-NCLT works very well, but a lot of cases where management is also cooperating, there is a restructuring plan and you can actually do sometimes much better outside of NCLT, plus the fact is that cases which were already NPL before March 31st are still eligible for NCLT and IBC has been in suspension only for the next year, so the threat is there and the threat itself allows you to do a lot of restructuring very efficiently and we have seen last three-four months actually have been very good even on recoveries on the ARC side. So, we do think that large part of that is going to be how economy comes back, how liquidity conditions are and I think India has taken a lot of pain in the last five-six years. Fortunately, our economy encountered the COVID hurdle when we had already gone through four-five years of pain, so we are not in euphoric state and there was not huge expansion underway where we suddenly hit a roadblock. I think the economy had been facing headwinds, so we were a lot more prepared and we do think that COVID is like the beginning of the end of that phase for India where the growth has been challenged and we remain very confident.

In fact, historically if you see the way India has bounced back after any crisis period has been phenomenal and I think all the things which are happening, Government cutting stamp duty on real estate, huge liquidity, Government programs coming out there, companies becoming more efficient, all of us focusing on cost rationalization, all of that will come together. There has been a perfect storm in a bad way in the last few years. I think maybe there is a perfect storm in a good way going forward where everything will converge and there will be virtual cycle for all of us and we continue to be focused on that, that COVID will get over, there will be March 2021. If we are all 100% certain that there will be a phase called March 2021 and hopefully by then COVID is over and when that is over, if you are strong, you will be able to become stronger, but if you try to optimize and remain still scraping until then, then you will spend a lot of time recovering from that. So, idea is to be positioned for growth from March 31, 2021, and that is what we remain committed to.

Moderator:

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

Ramya Rajagopalan:

Thanks, Raymond. Thank you very much everyone for your time today. With that, we have come to the end of our available time and I know there may be more questions that you may have for us, we request you to contact me or our investor relations team and we will be happy to help you out with whatever additional information requirements you may have. Thanks again, have a great weekend, and stay safe.

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.