

EW/Sec/2020/138

July 13, 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 July 06, 2020, pertaining to the Financial Results of the Company for the year ended March 31, 2020.

Kindly take the same on record.

Thanking you,
For Edelweiss Financial Services Limited

Sd/-
B. Renganathan
Executive Vice President & Company Secretary

Encl: a/a



“Edelweiss Financial Services Limited Q4 FY20 Earnings Conference Call”

July 06, 2020



**MANAGEMENT: MR. RASHESH SHAH – CHAIRMAN & CEO, EDELWEISS
GROUP
MR. HIMANSHU KAJI – EXECUTIVE DIRECTOR &
GROUP COO
MR. S. RANGANATHAN – CFO
MS. RAMYA RAJAGOPALAN – HEAD OF CORPORATE
DEVELOPMENT**

Moderator: Ladies and gentlemen good day and welcome to the Edelweiss Financial Services Limited Q4 FY20 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Ramya Rajagopalan. Thank you and over to you.

Ramya Rajagopalan: Good afternoon everyone. Thank you for joining our Q4 earnings call. I hope you and your families have been safe and well. We have with us today, Mr. Rashesh Shah – Chairman and CEO of the Edelweiss Group, Mr. Himanshu Kaji – Executive Director & Group COO and Mr. S. Ranganathan – CFO. During today's discussions, we will be referring to the Q4 investor presentation uploaded to the exchange and on our website. You may wish to have it handy.

I would like to state that some of the statements in today's discussion may be management estimates or statements that are forward-looking in nature. Please take a minute to read the safe harbor statement in our results documentation as well.

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

Rashesh Shah: Thank you Ramya and good afternoon to all of you. Thank you for being here and giving us this opportunity to present our results and the plan going forward. But first of all as Ramya said we hope that you are all safe, you, your families, your colleagues are all staying safe and managing the situation well. This has obviously been an unprecedented environment globally not just in India and I think all of us are doing our best to navigate through this and I hope that we all come out of this strong and healthy.

Friends today I want to talk to you about three parts in this call; first is our results, second is the current situation and our response and the third is our plan going forward. On first, this has been a challenging year, a challenging quarter that goes without saying. For us this quarterly results have been a big challenge, it's been a tough time. But first of all our organization strength, our diversified business model has helped us to navigate this well and as we speak through that as you would have seen in the presentation there are lot of things we have done, to be able to manage this current environment. On results and profitability, you have the actual presentation. My colleague, our CFO S. Ranganathan will take you to the minute details of the financial numbers and also but I think the biggest decision for us in this quarter has been the impairment that we have taken. We have put a lot of thought into this; all of us have grappled with this. It also has resulted in our first loss in our 25 years history in Edelweiss but we have done this with a lot of thought to see this as maybe an investment into our future to make the organization, our balance sheet and our businesses stronger. Large part of this impairment has been obviously because of the concerns around asset quality; a lot of you have been sharing concerns around asset quality. I think in India the credit environment in the last few years and especially for

NBFCs in the last 2 years has been very challenging. While in the last 2 years we have been focused a lot on liquidity and going through this particular environment of crunch liquidity post IL&FS, we have also been focusing on asset quality and as we announced in the last quarter that was pre-COVID in February when we announced our last quarter results we had said that we are revising the credit loss model we have in view of the revised environment, in view of the new Ind-AS guidelines and we have worked with an international consulting firm to look at our wholesale book and basically recommend what the impairment should be, not only current but taking future cash flows into account. So in a way this is not an NPA approach where you provide over the quarters, the impairment approach we have taken is to estimate the future cash flows and mark down the value of those credit assets as of now, so that it's more like a preemptive impairment. What we also did is estimated the COVID impact I think you would have seen in the presentation there is almost 900 crores number which is our COVID impairment. Now COVID impairment as we look at the environment, different banks and NBFCs are following different approach, some have chosen to wait because it's still not clear especially people with large retail portfolios may wait because retail impact because of COVID is still evolving and I'm sure a lot of you are following this closely and I would love to hear from you how you see the environment for retail asset qualities because of COVID. On wholesale side I think last 2 years we have seen lot of stress testing and with COVID we feel fairly confident that whatever estimates on impairment we have to make we have been able to make and my colleague SR will share more about this approach to you.

The second challenge for us has been liquidity. We have been grappling with liquidity for the last 18 months but as you have seen over the quarters we have been amassing liquidity and slowly and steadily we reduced our borrowings and increased our liquidity on hand as the liquidity environment kept on getting tougher and tougher in the last 18 months. So in March we were fairly okay and we always have a 365 days horizon on liquidity that is where we were in March but then COVID happened and because of the one-way moratorium for NBFCs we did offer the moratorium to our customers as required and since we didn't get automatic moratorium from the banks we had estimated that our COVID shortfall in liquidity and cash flow will be about 4,000 crores, close to about 600 crores a month over 6 months is what we estimated and we immediately got to work on that. We immediately triggered off all projects, all activities and we have got about 1,000 crores from TLTRO scheme of RBI. We are also banking for another 1,000 crores through the partial credit guarantee scheme though from eligibility point of view we are eligible for more than 4,000 crores. As you know how the partial credit guarantee scheme is designed, it is mainly for non AAA rated borrowers with the government guarantees the exposure of the banks to NBFCs and your eligibility amount is 1.25 times your outflows for the next 6 months. Our outflows for the next 6 months are about 4,000 crores; our eligibility is close to 5,000 crores. We are being very conservative and saying we will definitely raise about 1,000 crores in this. We will use 1,000 crores from our existing reserves and 1,000 crores of assets sales, so we have a fairly good plan that this liquidity shortfall has been an immediate requirement and we have managed to come out with the plan that broadly handles that, so we come back to normalcy. Our idea was on liquidity to come back to normalcy as fast as possible and last 3 months have gone in achieving it.

The third challenge has been the business continuity; because of COVID I'm very glad to say that our businesses like asset management, wealth management even ARC we have done quite a few recoveries in the last few months, insurance, all of them have done well, credit obviously has been impacted across the board on both grounds on asset quality and on liquidity. So outside of credit our diversified business model has really come of age in this quarter and it has allowed us to showcase that we have a strong customer franchise, our fee income has been strong and I think what has allowed us to navigate this fairly well has been first and foremost what I call team Edelweiss. Team Edelweiss in this quarter has come through, everybody has gone over and above the call of duty for internal project management, for coping up with the situation, for reaching out to clients, all of that and it obviously came very suddenly but the way team Edelweiss has navigated this whether it's liquidity, whether it's asset quality, whether it's customer connect, I am truly very glad that we have been able to manage it. I call it this was our Atma Nirbhar quarter, this is a quarter we showed that team Edelweiss can be Atma Nirbhar and we have been able to demonstrate that. Also as I said our diversified business model has been a key one as you would have seen in the presentation about a one-third of our capital is used up in asset and wealth management and ARC; they also have 33% of a headcount and they constitute 38% of our top line so which underscores the diversified business. But even in the asset management, wealth management and ARC the 2,000 crores of fee income that we have, we have almost 1,100 crores of fee income in asset and wealth management and another about 800 crores a year in ARC. So we do clock fairly good fee income across the board and we have done this for the last 3 years, '18-19-20, if you look at all these years, our fee income has been fairly consistent across asset management, wealth management and ARC and that has underscored the fee franchise and the customer faith that we have had.

Lastly as I said earlier we have taken a conservative approach to impairment, we would love to hear from you on what your views are. There are always questions because last few years whether you are a bank or an NBFC, asset quality and impairment has been top of mind issue for everybody. We have tried to be ahead of the curve, we've tried to say that let's estimate as much as we can and we were in a fortunate situation of having excess equity. As you would have seen even after the impairment our capital adequacy is robust because we have not only raised equity in the last year, in the last 1 year between EGIA the deal with Kora, Sanaka and in NBFC the investment from CDPQ we have raised more than 1,400 crores of cash already and expected almost another 1,000 crores to come in the next few quarters. So in a way 2,400 crores of equity raised, 2,400 crores of impairment taken so at least our equity raise has off-set the impairment taken though as we will see we are planning to raise some more equity in EGIA going forward. So we have taken a conservative approach to impairment (a) because we think we should do that (b) because we can afford to do that. We have excess equity, our NBFC has, ECL Finance has capital adequacy of more than 21%, our housing finance company has 28%, and our ARC has 32%. So what has happened in the last 18 months fortunately or unfortunately because of IL&FS and borrowing has got crunched and we have raised equity but we have also degrown the balance sheet, we have excess equity and since we don't intend to be very capital heavy in our future growth, a lot of this equity either we can just use it for something new or we can dividend it out or we said let's keep it in the business and build a cushion on this so that our future balance sheet becomes stronger.

So our approach has been that let's do everything right now to make the future stronger and make sure that we are able to take that. As you would have seen our wholesale book in ECL Finance has come down by 43% from the peak, anywhere at a group level 2 years ago our borrowings were 50,000 crores at the group level that has come down to 33,000 crores and I expect that by end of the year we will be at 25,000 crores. So effectively in about 3 years we would have reduced our borrowing from 50,000 to 25,000 crores as a response to the liquidity environment and the unprecedented post IL&FS environment and the COVID environment. So I think that has been a key feature for us in the last few quarters, specifically in the last quarter. We also want to make sure that we continue to manage risk, the last quarter has been very volatile and we have continued to manage risk on ourselves and our clients and we have come out fairly well. It's been a very-very volatile environment and we have also strengthened our technology. I think the digital transformation of Edelweiss was underway but last 4-5 months have been really taken a leap from and this work from home has been a big catalyst for the digital transformation of Edelweiss.

Lastly amongst the action that we have taken that we are very gratified is EdelGive—we also have shown that in the slide EdelGive—has worked very closely with its NGO partners and to make sure that we continue to invest back in the society, I think because of COVID a lot of part of the economy, a lot of the people of India have been disadvantaged in a huge way and whatever little bit we can do through EdelGive and through our NGO partners we have gone out of our way to do that. Our total commitments through EdelGive in this year have exceeded 100 crores with impact across 109 districts in 14 states. So this has been actually the best year ever FY20 for EdelGive also in its more than 10 years history.

So going forward friends we will continue to focus on the asset quality management and recoveries. I always say that impairment is only the first step; impairment gives comfort to investors that you have marked it down. You have been conservative in that but you ultimately have to recover. And since we have lot of ARC experience our culture of recovery is very strong and I remain confident that on this wholesale book and projects we have we will complete those projects, a part of the asset sell down we have done is via funds where part of the money is being used to complete the project so that we can make sure our recoveries are very robust and very strong. We will do some capital raise in this year as you know all organizations are getting ready for future growth and I think given COVID and the lingering effects of COVID a strong capital base and a strong balance sheet will be fairly useful.

And lastly going forward; our focus is going to be on cost rationalization. We believe that degrowth of balance sheet is inevitable, it's already happened. It may happen for the next few quarters but degrowth of cost is in our hands. So we should not only reduce the balance sheet but also reduce cost. We have set a target of 18% to 20% of cost rationalization and the team Edelweiss has taken up the challenge to say that between now to the end of the year we will bring down our cost and become more efficient more productive and build a business structure that is very cost efficient which we can use to create value for our clients.

Lastly friends we have to all get ready for a post India COVID. We do believe that this is an inflection point. I think for us for Edelweiss also after 25 years this is a most important inflection point. But as we think about Edelweiss post COVID we want it to be more retail, more granular, more capital light, huge focus on asset management, wealth management and with a strong and fortress balance sheet and liquidity profile that we have been focusing on and we will continue to make sure that we achieve that at this inflection point and then leap forward into the future because we believe that post COVID India growth will be there. The world will also come back post-COVID I think it's been a big shock to the world, to all of us. But humanity, all of us have handled crisis in the past, India has gone through many crisis. In fact India story has always been that crisis has always been an opportunity for reforms, for getting a lot of things out of the way and for the governments also crisis are a good time to get the political capital to make some deep changes. We do think that will happen in India, the green shoots have started. I think April and May were really dark days, for all of us it was really unknown-unknown. June we have started seeing things improving even our customer connect when we have connected with customers the moratoriums have come down, customers have been a lot more sanguine, people have started a resumption of business also. So we do believe that we have to plan for the future. In fact this impairment that we have done is in a way an investment for a better future because this impairment should make our balance sheet stronger so that we can make the right decisions going forward because all decisions we make today have to be for a better future and we are thinking not the next 3 months in fact the next 3 or 6 months maybe still very uncertain as COVID plays itself out. But I think the next 3 years and the next 25 years for Edelweiss are going to be very important. So along with that once again thank you friends for being here. I will now hand it over to my colleague S. Ranganathan, our CFO to just give you key highlights on the numbers. You have got the presentation and then I will be happy, my colleagues will be happy to answer any questions that you have. Over to you SR.

S. Ranganathan:

Thank you Rashesh. Good afternoon everyone and thanks for being on this call. Today I wish to speak to you on the following four things:

- Financial numbers.
- Impairment.
- Liquidity.
- Capital adequacy.

On the financial numbers for FY2020:

The total revenue for the year 2020 stands at Rs. 9,603 crores and the net revenue reported at 4,810 crores. Operating expenses for the year was Rs. 3,705 crores versus 3,936 crores for the financial year '19. Reported a PAT, in the negative of 2,045 crores largely on account of impairment that we have taken during Q4. Fee income from the wealth and asset management as well as asset reconstruction business remains strong and steady at roughly 500 crores per quarter even in a weak COVID impact environment. Overall our balance sheet size as on 31st of March, 2020 stood at 43,864 crores as compared to Rs. 53,932 crores for the previous year, largely driven by the decrease in the credit book coupled with reduced borrowings. Net worth

as at 31st of March, 2020 stands at 8,541 crores. Borrowings stand at Rs. 33,754 crores down from 43,201 crores in March '19, a decrease of 9,447 crores year-on-year. If you look at the last 18 months borrowings have come down sharply by almost 17,000 crores. Our debt to equity ratio stands at 3.5 which is significantly lower than 4.4 at the end of financial year '19. Effectively given the actions taken we are moving towards the fortress balance sheet.

Let me now move to the two big areas of focus for this quarter, one is the asset quality and the other one is liquidity:

Impairment as announced in Q3 FY20 we reviewed and revised our ECL model. To this end we had also commissioned an international consulting firm to review the expected credit loss model particularly on the wholesale portfolio. The forward-looking forecasting methodology required under Ind-AS 109 factors in microeconomic variables that were subjected to further rigour, the loss given default was also updated based on our own experience of recoveries with cash flows discounted appropriately. This model threw out a number of Rs. 1,200 crores in addition we applied a conservative management overlay and chose to carry a higher provision of roughly 500 crores on a conservative basis to facilitate sell down. We also assessed the impact of COVID19 on our wholesale and retail portfolios including an assessment of the potential prolonged business slowdowns resultant liquidity pressure and took a COVID related provision of roughly 900 crores on a conservative basis in Q4 FY20 itself. This is a one-time provision on this account. Therefore the total impairment stands at roughly 2,600 crores for the quarter and the key elements of impairment are brought out in our slide #18 of the investor presentation. It's also important to note that these impairments mentioned and that I spoke about are not actually cash losses, it's just an accounting provision that we have built up front in the current macroeconomic environment.

Moving onto liquidity:

The available liquidity on March '20 was 8,150 crores which accounts for roughly 24% of our borrowings, so on that front we are pretty comfortable. As we started our financial year 2021 our top priority was managing the COVID impact on liquidity. We estimated the continued moratorium impact on liquidity to be in the range of Rs. 4,000 crores. Resource raising from banks including under the various government initiatives has been extremely favorable and we have a strong pipeline of proposals lined up with the bank. We have since been able to raise funds close to Rs. 1,400 crores in the form of LTRO, PCG, Term loans etc. In addition to this we expect another 1,000 crores of bank lines under the PCG and cash flows of roughly 1,000 crores from asset sell down. These steps have helped us to address the COVID related liquidity concerns. Strategically we are also looking to raise equity of 1,000 to 1,500 crores in our EGIA business. This is expected to close in the next 6 to 8 weeks. In addition to this we also have the board approval in place to raise equity of 1,000 to 1,500 crores in EFSL as a holding company if required. Therefore the ALM continues to be strong across all tenure. This has further strengthened by our current borrowings which are largely in the 3 years plus bucket.

I would also like to highlight the key capital adequacy ratios which continue to be strong across all the key entities. The capital adequacy at a consolidated basis stands at 20.8% which is significantly better than 18% reported at the end of last year. As you can see on slide #11 of the presentation, our NBFCs are well capitalized with ECL Finance with a capital adequacy of 21%, Edelweiss Retail Finance Limited at 29.4% and Edelweiss Housing Finance Limited at 28.6%. In addition to this our Life Insurance and General Insurance business has strong solvency positions with solvency ratios of 232% and 236% respectively for these two entities.

In conclusion, all our business continued to be well capitalized and have adequate liquidity. Overall we are confident that we are well placed to see through this COVID pandemic and face the challenges in the macro environment. In the post-COVID scenario we expect to emerge stronger. We have taken and will continue to take all measures to build up a strong long-term growth trajectory going forward into FY2021 and beyond. We'll now open up the forum for Q&A and thanks to all of you once again.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Anand Laddha from HDFC Mutual Fund.

Anand Laddha: I just wanted to look at now how one should look at Edelweiss as an entity, we have now carved out different verticals for each of the businesses and if you can give some color on how one should look at growth bar for each of the verticals as well as the fact that how much will be the equity stake of Edelweiss in each of these verticals would be and where we are looking to raise capital and post capital sell how much stake we will hold?

Rashesh Shah: If you can see we have now actually after a lot of change we have now structured ourselves in four business verticals across 10 entities because entities like in credit which is one business vertical there are three entities in that. So I think the first is credit, the second is asset and wealth management, the third is ARC and the fourth is insurance. Now in insurance there are two entities, ARC is one entity, EGIA has got broking, investment banking, asset management all of that. So I think these four verticals are the building blocks of Edelweiss. In credit we have more than adequate equity as you can see our capital adequacy even after this impairment is fairly high and as we continue to degrow the wholesale book, our wholesale book today is still about close to 10,000 crores and as we release that equity in 2 years by '22, we want to wholesale to be zero in the NBFC business, in the credit business we will do it as an asset management in AIF as we have been doing. We have more than 21,000 crores of assets under management in credit strategies because we have realized that a lot of these project finance and housing finance and construction finance and all there is a lot of uncertainty around cash flow though the returns are good. If you do it in a fund format then you take the ALM risk and the NPA issues out of the way and it is actually better for investors because they also get a higher yield. So I think credit we are more than adequately capitalized, we will actually have release of capital over the years because for the retail business also we don't want to be very asset heavy and we expect that our retail credit business should not require more than 1,500 crores which is currently with all the equity in EHFL and ERFL which are the two retail entities we have. So slowly and steadily idea is to bring wholesale down, so credit no more equity needed. We will approximately own 80%

of credit and 20% will be CDPQ. They have a convertible structure, so around that broadly is the holding structure. In our asset and wealth management business we have Kora and Sanaka as investors. They have put in first tranche, the balance two tranches are yet to come and they will end up owning about 14%-15% of that and we will end up owning 85% of that. For their 14%-15% they would have invested about 800 crores in total across three tranches. But I must remind only one tranche has come; the other two will come in the future. So we will own 85% of asset and wealth management business, ARC we already own 60%. As you remember we started at 49, we have gone up to 60% of ARC and in the Life Insurance we own 51% and in the General Insurance we own 100% as of now. Our idea is going forward slowly and steadily make all these businesses independent and keep them standalone, maybe also demerge them into standalone entities because they are all getting scaled like our asset and wealth management business makes close to 300 crores of profit after tax a year, our ARC makes 300 crores of profit after tax a year. So all these are good standalone businesses and our idea would be that going forward business models globally available where each one of them like alternatives business there are entities like Blackstone abroad, ARC there are entities like Oaktree and all abroad, in things like wealth management Schwab and all are the models. We think each one of them has a lot of scalability and now the time has come and we are going to use this to start making them more and more independent that is why we have got investors in that. We have ring fenced the equity, the governance is ring fenced, all these are actually independent businesses already in Edelweiss and our idea would be that as we release we also would like to distribute the shares to the investors so that Edelweiss doesn't want to be a holding company in the long-term. But we want to have these four parts and slowly and steadily make sure we unlock the value and give it to shareholders because one of the good things about Edelweiss is more than 45% of the company is held by insiders. The insiders have a lot of skin in the game, so as we want to unlock the value for everybody by building these businesses and making them independent we will think through that. I think this will be the plan for the next 3 to 5 years but that seems to be opportunity because each of them are very strong business. The foundations are very strong and we can now build on those foundations.

- Moderator:** The next question is from the line of Chandragovind Raju from Ashmore. Please go ahead.
- Chandragovind Raju:** My question is regarding the equity release that you are mentioning, you intend to sell wholesale book and you're adequately capitalized on the credit side, so what do you want to do with the excess capital that you have? Is there any buyback on the cards?
- Rashesh Shah:** Not immediately because the release of capital will take time and given the uncertainty that is there I don't think it will be prudent to release any capital as of now but on a long-term basis as I said in 2 years we want wholesale book to become zero in our NBFC and we think the recoveries will also start because we have taken impairment but as we know what happened with banks when they took Essar Steel they took complete impairment but a lot of flow backs and all that came back. So we think over next 2-3 years we would like to release equity and if that excess is available as we said we are very focused on capital allocation and buyback—I mean even today we are trading below book value—so buyback is always a good idea if you are trading below book value but for that I think we have to navigate through this environment. Our current

commitment is that for the next 18 months or 2 years we use whatever equity we have to make sure the businesses become stronger and we take care of all the stakeholders. So I don't think in the short-term that should be an idea but in the long-term if there is excess capital that will always be a good idea.

Moderator: The next question is from the line of Jeetu Punjabi from EM Capital Advisors.

Jeetu Punjabi: There is one simple logistical question, my understanding throughout was that the ARC was going to be part of EGIA but if I see page #7 and see the articulation of capital, its separate. Can you just explain is there a change in mind, what's the thinking behind this?

Rashesh Shah: Yeah the change in mind has been, Earlier we were seeing that as part of asset management business and all but given the short-term uncertainty because I think COVID is going to impact recoveries and all that and we have said that that's why we have taken an impairment on ARC also. ARC portfolio also we have taken an impairment and given that there are business equivalents available which are listed outside like IIFL Wealth and I-Sec and others are available outside, the board decided that let's keep it very asset light model because an asset light model, it's more like an FMCG business which is not capital hungry and doesn't need to raise capital all the time and what was happening is with ARC, EGIA was becoming partly capital light partly capital heavy. Our ambition in EGIA is to keep it very-very capital light. The only capital it will be using will be margin funding but even those we think will be converted into asset management in AIF products going forward. So our idea in EGIA has become very clear in the last 1 year is to keep it very-very asset light, very-very franchise FMCG kind of business. So its high ROE, it's not equity dependent and it should actually throw out equity and that is what has been all over the world. If you look at large companies like Capital International and Fidelity, they are also private companies because they throw out capital all the time. So idea is last 1 year we have learned that it's good to have businesses which are not dependent on forever raising capital. So by keeping ARC out of it we're ensuring this business remains capital light and in fact capital easy.

Jeetu Punjabi: Are you optimistic on the ARC as we move ahead I mean you have the few good successes the Bhushans and Essars and do you see the resolutions continuing.

Rashesh Shah: I think so; ARC is looking good though I have to be careful because currently the environment everybody is very careful about it. What we also found is investors especially retail investors or global investors who are investing in asset management; wealth management found ARC very hard to understand because I must admit ARC is a very Indian concept. It's an LPGP model, it's partly balance sheet, partly skill based. It's a very specialized business. I think it will continue to do well. Even now on the 2,000 crores equity after impairment it has made 300 crores profit after tax. So even pre-impairment it would have been a 20%-22% ROE kind of a business. We are seeing a lot of banks are coming back, a lot of banks are also doing SR structures again and as COVID plays out I think the impairment across the banking industry will go up and as that happens we have always seen that banks are more and more open to using the services of ARC to recover. And what used to happen ARCs were also in a way competition to NCLT because in

the last couple of years banks had a choice, go to NCLT or sell to ARC. Now with NCLT also being in suspension for a year banks are coming back to ARC because when they want to get something of their books and they want somebody to solely focus on recoveries, I think an ARC model works very well especially when there is a consortium and they have multiple borrowers. So it's early days but I think after 3-4 months we will see again scale up in the ARC business. Even now we had a very good recovery; June was a good month for recoveries also for us as we have shown in the PPT. So I remain confident of the ARC business but it will be chunky, it will be volatile as compared to an EGIA business which is very steady.

Moderator:

The next question is from the line of Aditya Singhania from Enam Holdings.

Aditya Singhania:

I had two questions; one was the presentation format seems to have changed a little bit in the last three quarters. I just wanted to understand from a starting point of FY19 if you could just take us through the change in the loan book mix because I see a 43,000 odd kind of number in FY19 and now it's disaggregated into four different verticals. So if we just changed because there is a substantial reduction and so I was trying to understand how you managed that, what you sold and are there any residual risks left in what you sold? That was one question. I will ask the second one once we are through with this.

Rashesh Shah:

So it's a request that has come from a lot of people. I have told our IR team Ramya to in a day put an addendum to the PPT which gives a comparison from March '19 to March '20 in terms of how all the components of the loan book have moved. Broadly our loan book has come down by about 14,000 crores in the last 1 year broadly approximately 13,000 to 14,000 crores, half of that I would say is in the wholesale book. About 6,000 crores is a wholesale book, the loan against shares book is another 3,000 crores and the balance 3,000 crores would be in the retail book. So 3,000 retail has come down, 3,000 LAS has come down and about 6,000 wholesale. These are very approximate numbers but just to compare apples to apples we will put out an addendum to the IR PPT which is also asked by our 3-4 other investors. What we have done Aditya is we have moved to entity wise reporting because that was another need a lot of investors, not just equity investors but even banks and others were asking that they would like to see entity level and we thought since this is end of the year and for the FY20 we now move to entity level as we are restructuring the businesses into different groups I think entity level has been very important because now we have investors in each of the groups, so anyway we operate internally by entity wise only. When CDPQ is investing in ECL Finance they are only focused on that. There is a ring fenced governance out there. A year ago a lot of this was fairly fungible across the group but now each entity is very standalone, very ring fenced. So what we need to do is to build a bridge between entity wise and what we used to give which was earlier business wise and that's an easy one to do, we have it already ready. You should have it in a day's time. But as I said the book has come down by about 12,000 crores approximately.

Aditya Singhania:

And just that in addition to this is, is there any debt at the parent company level?

- Rashesh Shah:** SR we have a little bit of debt? Over the years we have reduced, we have not given too much debt. We have not had too much debt on the parent company level or the EFSL holding company. SR how much is the debt or the borrowing at EFSL?
- S. Ranganathan:** That's about 75 crores of CP.
- Rashesh Shah:** I think we have ensured that holding company we have not had too much borrowing because we didn't want to do multiple level leveraging, we have seen lot of Indian companies have holding companies leverage than operating company average it all adds up. So at Edelweiss Financial Services we have tried to keep it. In fact the good has been Edelweiss Financial Services has not had any borrowing, the bad has been we have not kept any extra cash at Edelweiss Financial Services because that is idle. We have invested in our entities to make sure they are all well capitalized. So as you can see in the presentation ARC has 2,000 crores equity, more than enough. EGIA has about 1,200 crores equity, more than enough and we will raise more. Credit has across the three entities close to 5,000 crores odd of equity, more than enough and insurance has got enough equity. So we have ensured that our operating entities are well capitalized.
- Aditya Singhania:** The second question I had was more in terms of employee remuneration and how are you seeing that going ahead, so the specific question I had was that historically as the earlier participants also noted there will be more of one single entity and as far as I understand I think you have given employee stock options of the holding company and that is been fairly generous. So we see a large percentage of your company owned by employees and management. Now that you have multiple entities with multiple stakeholders how are you thinking through that and along with that conversion if any from the current situation and if I might also throw in given the rather painful correction the stock price has seen does that in any way....how do you think about that in terms of retaining your very good quality talent?
- Rashesh Shah:** Actually that's an important question and we are in that transition phase where like for an example in insurance business which is a JV with Tokio Marine, so they may or may not get listed we have rolled out an Long-Term Incentive Plan, LTIP like other insurance companies. So we are slowly replacing ESOP for those employees with an LTIP. In our asset and wealth management business we are doing a shadow ESOP for our employees. The same thing we will do in credit and all that. So our idea is slowly and steadily because we have 11,000 people and very hard to have everybody aligned to one single entity and as you said the good thing about being diversified business model is that there are some parts always growing and doing well but the bad thing about a diversified business model is there are some parts which are always struggling and what we have seen in last 2 years the challenges of the credit business has actually overshadowed our strength in our asset management, wealth management, ARC even the insurance business, in fact in April and May our insurance businesses have been the fastest growing insurance business in the industry in spite of the lockdown and we are very small player. We don't have a big brand but still our insurance business has done well even in this environment. So that franchise and all is getting overshadowed and our idea is we are now 25 years old, the next 25 years of Edelweiss should be developing these different parts and aligning employees of those parts with those businesses. So we have started rolling it out from this year

for insurance, for EGIA and in the next 1 year our dependence on Edelweiss ESOP will slowly come down.

Aditya Singhania:

Just a follow up on that, so what you are suggesting is that for each individual business that entities', employees or management will get further stake by way of shadow ESOPs or whatever, is that a significant dilution we are looking at? Is there any quantification of the same because you mentioned certain percentage ownerships of each of these businesses, so if we are looking at further dilution which probably is necessary given the current situation but is that a significant number?

Rashesh Shah:

So as I said when you do things like LTIP and all there is no equity dilution, even a shadow equity is effectively an economic reward but it is linked to either stock performance or assumed stock performance so there is no dilution per se but obviously it will go through the P&L but nowadays even ESOPs go through the P&L under Ind-AS. But to give you an idea, our idea of a broad rule of thumb for ESOP has been between 1% to 1.5% a year over 5-7 years. So if we look at 5 year ESOP then our 4% to 5% ESOP dilution if you really are a listed company and there is going to be listing and you want to align employees with that that is generally a good rule of thumb to have. So going forward we are seeing ESOPs are very good but they also can be pro-cyclical, so our idea is to have a combination of ESOP and long-term incentive plan which also puts cash in the hands of people but is linked in some way or the other to the equities stock price performance.

Moderator:

The next question is from the line of Mahrukh Adajania from Elara.

Mahrukh Adajania:

I had just a few questions; you have given a detailed table on inflows and outflows which says asset sale of 2,200 crores in H1 and then probably 1,000 crores in H2 and then there in the presentation you talked about close to finalizing of 4,000 crores sale and 3,000 crores more later. So how do these four numbers tally as in what in the fund flow statement and that in slide #19?

Rashesh Shah:

So the way it works Mahrukh is like the 4,000 crores that we are selling we are taking a haircut on that, almost 800-900 crores of the haircut which is the impairment already built in. So what we did in March we have taken the impairment though the actual sale happened in June we have taken the impairment first because that makes sale easier and even if you do more portfolio sale whatever impairment is required on those particular assets we have already taken that so that when we sell it becomes easy. We don't have to take an impairment at the time of sale and that is why this entire ECL model and the preemptive impairment that we have taken. So this 4,000 if I give you a broad estimate, out of this 4,000 about 1,000 is the impairment, so effectively 3,000 crores is the sale price out of which about 1,200 or 1,300 will be kept in the AIF for completion of that project. This asset sell downs we are doing is not only for raising liquidity, it is also for making sure those projects have enough liquidity to complete that. So a lot of these projects need about 1,000-1,200 crores so that those projects can get completed because in real estate asset quality is directly related to completion of the project. So by doing this we did that last year with the South Korean company Meritz and even in that out of 2,000 crore deal almost 700 crores has been kept aside inside that entity the AIF to complete those projects. So in this

also out of 3,000 we expect that about 1,200-1,300 will be kept for that, another 700 will be kept by us out there as part of our investment in that and we get about 1,000 to 1,200 crores of net cash flow of this and that is how the structures usually work because we also want the upside because we think there will be a claw-back on that. There will be an upside on that though we have marked it down and we are the managers. So this AIF also is managed by us, we get a fee on this also. So as we manage this AIF and we recover the money it also comes back to us. So we want to keep the upside out there but by doing it a mark down, taking it off our books, putting it in an entity which has liquidity which can fund the closure of these projects and what we find is a lot of these projects are well done in a fund structure because then you don't have these quarterly NPA and technical NPA issues, you can restructure there, you can really get last mile funding, you can change the collateral package, you can do all of that. So I think the broad rule of thumb is whatever you sell about 30% to 40% is the cash inflow you get in wholesale. In retail you get almost 80%-90%, so that 10% you keep there. What you see out here as the asset sell down which is there is about two-thirds from wholesale and one-third from retail because we will also sell something from housing finance and that will also be used to grow that book again and that is part of like any other NBFC does, we will sell 200-300 crores every quarter in retail so about 500-600 crores of retail will also get sold.

Mahrukh Adjanina:

And just a clarification so this 4,000 crores deal has been done, is it?

Rashesh Shah:

Yeah, we have signed the deal and the first tranche and second tranche has happened; This has happened in multiple tranches because there is a lot of paperwork and approval and all that required so the first two tranches have happened which is about two-thirds of the deal, the last one tranche will get completed in this month.

Moderator:

The next question is from the line of Vikas from Carnelian.

Vikas:

I have couple of questions, one on the entire liquidity management of the total borrowing program that how do you see over next 12 months by let's say March '21 that panning out? That's one and secondly on the asset quality side; we have obviously taken a huge amount of impairments largely cautious provision, conservative provision, and excessive provision. So is it fair to assume that large part of the provisioning on the wholesale book is behind and going forward the credit cost will be business as usual or fairly nominal so that would be one and I will come back, I mean I have few more questions but if you can just?

Rashesh Shah:

I think on the first part on liquidity as you know our total borrowings, if I look at the partially convertible and all are the participating in ARC and all that, total borrowing should be about 30,000 crores and the average tenure is about 3.5 years. So our repayments every year are about 8,000-9,000 crores odd and if you see for the next two half years, in the slide #60 we have given, we have 6,000 crores in the next 6 months and then 4,500 in H2. So we have about 8,000-10,000 crores of repayments every year and our inflows are also about 7,000 to 8,000 crores on a conservative basis; out of which about half is retail and half is wholesale; retail we get about 200-250 crores every month, so about 3,000-3,500 comes from retail and the balance comes from wholesale. So usually we think the gap per year should be about 3,000 crores for a year

and obviously when COVID happened there that became (3+) another 4,000 that we have overcome but going forward if you look at our cash flow this thing, we will have a natural gap of about 2,000 to 3,000 crores and that's why we hold about 5,000 to 8,000 crores on an average. So our idea is that our liquidity should be in a very conservative basis at least for 1 year. So even in a 1 year our inflows are only 5,000 and outflows are 10,000 which should have at least 5,000 crores for liquidity. In March we had 8,000 and we will continue to maintain that. So that's how our approach and that is usually about 20%-22% of our balance sheet. So I think COVID created some palpitations obviously because in April when the moratorium got announced and we started calculating it; we suddenly saw that what was a 3,000 crores gap for 1 year could become a 8,000-9,000 crores gap for 1 year and we had 8,000 crores of liquidity but obviously you don't want to have no reserves at the end of the year. So we have fortunately managed it, the last few weeks have been very fortunate, banks have been very helpful, LTRO has worked, and PCG is working. So I think the government response work slowly but eventually has worked for NBFCs so on that count the COVID related impact is out and outside of COVID we were okay in March and we will continue to be that. It's not great liquidity environment from a growth point of view but it's enough to make sure you are able to meet your obligations and since we anyway want to degrow; for us this is not a bad time to continue to just focus the way we are focusing. On impairment, wholesale you know last 2 years have been very-very stressful and we have seen all kinds of stress. It started with demonetization, then GST, then RERA, then IL&FS and all that so we think we have also taken COVID impact and I believe COVID is going to have an impact on both wholesale and retail. I think retail might be higher than wholesale because wholesale last 2-3 years has been stressed; people have not grown wholesale; like we haven't grown wholesale for the last 2 years so there is no new wholesale that was done under some assumptions which have changed. So wholesale it's easier to understand the impact and I feel we have taken whatever has to be done on wholesale as an impairment. We don't expect any further impairment on wholesale even because of COVID. I think retail is uncertain, we are very small in retail and a lot of our is a home loan book and even that we have estimated an impact at that but I do think there is, for the environment as a whole uncertainty around retail asset quality impact and when I talk to banks and all, they all think post August and September you will start getting an idea of what kind of retail impairment will happen and that is why you see all the banks are proactively raising capital because what happens is if you think you are going to take impairment you will need equity. Now in our case we had excess equity because our capital adequacy last year was 19% ECL Finance that went to 29% and now with impairment has come to 21%; even with 21% we are higher than the 19% equity capital adequacy of March, 2019. So having excess equity is a good thing if you want to take impairment and lot of banks are raising equity to just be prepared for that so there is uncertainty on retail. We don't see a lot of issues on that, wholesale we have all been able to estimate what is the end. That is why we also got an international consulting firm to do future cash flows stressed all the assumptions and all and the impairment has been worked out on that basis.

Vikas:

And Rashesh on the EGIA business obviously there is a statement saying that they are planning to raise further capital, 1,000-1,500 crores. So I am assuming all these business are standalone, so in any unfortunate scenario of let us say any credit event in any of the entity, EGIA business remains fairly insulated and standalone, right?

Rashesh Shah: Actually India by law all businesses are insulated and standalone because when SEBI allows you to form an asset management company, that asset management company has its independent capital board all of that. Like to give you an idea, insurance is also independently capitalized and standalone, mutual fund is standalone, EGIA is standalone, even ARC is standalone, even within credit EHFL, ERFL are independent entity. Like EHFL has got about 750 crores of equity and has about 5,000 crores of book only retail. It's a good standalone housing finance company, it doesn't have anything to do with ECL Finance nor does ECL Finance have anything to do with it. So I think in India by law because there are different regulators for different entities and all these have their own board like EHFL has its own board and NHB looks at it, the board meetings and all that. So in India good thing is that the regulators also force you to be ring fenced both on capital, governance, balance sheet all of that and that has been the case, I think it's never been highlighted but that is been so. Even today our insurance company has got 700 crores of cash, but we can't use that cash. Even ECL Finance have got ample liquidity, is got more than 4,000 crores of liquidity but the holding company can't use that liquidity. If you want to do a stock buyback, we can't just take that liquidity, we have to dividend the money up and then we can do that. So that has been the case for the last many years, you can't just take money from one entity to another because each one is independent, covenants are there, the banks are monitoring what is happening in ECL Finance, so ECL Finance can't give money to ARC, ARC can't give money. Our ARC has got 400 crores of cash so the cash that you see is also split across various entities and they are all ring fenced and what we have achieved in the last 18 months has become self-sufficient on liquidity, on entity level also.

Vikas: My question was more is EGIA ownership unencumbered to any of the lenders I mean is that because is it unencumbered is any borrowing across the group?

Rashesh Shah: Yes, it is held by the holding company and as I said earlier holding company has no borrowings and all. So currently it is completely unencumbered and all our entities, our insurance company is completely unencumbered, our ARC is completely unencumbered so all these are independent entities which are held by the holding company and that is where the equity has been infused by the holding company.

Vikas: And by when do you expect to complete this fund raise which we are actually I mean what is the kind of time frame we are looking at?

Rashesh Shah: We would like to do this in the next about 8 weeks or so. Lot of PE firms are interested as you see, I think COVID has been good for wealth management as lot of people have been creating more and all. We have added a lot of clients, our assets have done well and especially things like app-based trading and remote trading and all has gone up in fact in this quarter also. So I think it's been a good quarter for wealth management not just in India, all over the world so there is a lot of interest and the other comparable like ICICI Sec and IIFL Wealth and all have done well, so we have about 5 or 6 PE firms who are in conversation with us. We would like to do it faster because we want to hurry up this process of independent entities giving the alignment to employees through LTIPs and others in each of the business. We have been doing that for the

last 1 year and I think another 5-6 months we should be there. So by December or by March we want to make sure this ring fencing and standalone entities are go even further than they are now.

Moderator: The next question is from the line of Subramanian Iyer from Morgan Stanley.

Subramanian Iyer: So part of my questions have been answered I mean you mentioned that on the wholesale side you don't expect provisioning going forward given that you have taken most upfront and most of it. So how should we think about PPOP going forward in both the credit as well as the non-credit businesses and to that extent what kind of profitability should we expect over the next couple of years, I mean given that the accounts have been restructured so much, would we good to get some articulation? The other question I had is that if we see the reporting this time then we have numbers for a few entities that have been reported but there is also a residual number both in terms of credit, both in terms of provisions as well as the P&L. So what should we expect going forward, should there continue to be of a residual number in the coming quarters?

Rashesh Shah: So SR will answer that. No, we have actually taken it across but SR can answer that and we are going to build a bridge to the entity versus the books size and all then as I said earlier there is a request that has come from most of the people. Sorry Subbu what was your first question?

Subramanian Iyer: If you can articulate what kind of PPOP and profitability the businesses can earn in the coming years?

S. Ranganathan: I think Rashesh we have to give the entity level breakdown and the bridge that we were talking about, that should make it very clear because that will be a very longish kind of an explanation for me how we separate it out and all those things..

Rashesh Shah: I think broadly Subbu on asset management, wealth management, ARC we don't see any change in PPOP; in fact there will be growth as we raise equity and invest that and all and that has been the trend for the last eight quarters also so you can extrapolate that trend on that front. On the credit business the PPOP is going to be dependent on two things, one is how fast we scale down the wholesale book which will be good from liquidity point of view but we will be reducing PPOP and second is on the cost side and as we said we are reducing cost in a fairly significant way. So you might not see it on a quarter-by-quarter basis but we have a target for the fourth quarter to get to a particular PPOP. But as I said our idea is that what we have taken this time is a one-time hit and maybe when we give that bridge will also be able to explain how the book will move and the PPOP will move accordingly. I think cost on the credit side is going to be a very important aspect and we are, as we have said very-very focused on that because last year I must admit a lot of focus has been on liquidity. But now that with the scale down and all; I am very happy that our borrowings have come down from 50,000 crores to only 33,000 crores, in fact by this quarter it will be 30,000 crores. So this kind of scale down in borrowing given the environment that has been there has been very helpful. So we can now focus on cost.

Subramanian Iyer: And just if I may ask another question and probably you might have already answered it, I got disconnected in between. So how do you plan to utilize the proceeds of the capital raise, should

we look at it like a fresh infusion in the EGIA businesses or is that money going to be basically moved to the parent entity which is your EFSL?

Rashesh Shah:

It is both because even today the parent has given a lot of money to EGIA for its various needs, working capital and all. So even when EGIA raises the money it will repay to the parent and all that as the parent requires but largely this will be to make sure EGIA has enough growth capital because as you know earlier EGIA used a margin funding book of ECL Finance. Now we have reduced that book because ECL Finance will not do margin funding or ESOP financing anymore and EGIA will have its own attached to the wealth management business and all. So idea is to raise equity for EGIA but also for EGIA to repay part of it to the parent also; as I said because the parent has never kept any liquidity for itself, we have always infused into the subsidiaries and having a little bit of 300-400-500 crores at the parent level will allow us to have other options like if you ever want to do a bond buyback or you want to invest more in any businesses you have that flexibility.

Moderator:

The next question is from the line of Aditya from Citigroup.

Aditya:

On the ECL model change could you talk about the LGD and PD assumption, probability of default or default assumptions which are there now in the model and what they were earlier?

Rashesh Shah:

I didn't hear that clear Aditya; can you repeat that and may be SR can explain the actual ECL model.

S. Ranganathan:

I will just try and take that question, what we have done is, well the standard actually wanted us to look at the future to determine what is going to happen and so we already had that model; now to that we had to add some more rigor coming out of the review method that we have looked at. The cash flows were subject and the cash flow estimates that we have had taken earlier were subjected to a little more rigor coming in that. Our own recovery estimates has got to be changed because we were working on a particular recovery methodology where recovery estimates, those recovery estimates had got to be brought closer to the date. So all these things and to that we had to add the vagaries and the uncertainties associated with some exposures in a certain segments. So all those things were put to rigorous test and the ECL model was relooked at; added to that was the COVID impact that we added to that and that's how the impairment numbers were worked at. So it's a short answer but this actually took about 3 to 4 months.

Rashesh Shah:

Actually Aditya, if you look at impairment there are two things that people will work on as we move to the Ind-AS kind of new model. I think one is the actual loss and the other is the time of recovery for a lot of wholesale assets which are collateralized, what has changed largely in this assumption from what I know very broadly is the time to recovery has changed; what was supposed to be a 2 year has become 3 years and 4 years and we have also assumed that you will not earn interest so your actual NPV of that came down and large part of the impairment has been NPV led. What we, the exercise we have done SR if you can confirm has been NPV led, we have tried to NPV the future cash flows but a lot of that we have not, the underlying value has not changed but the time has definitely got elongated.

S. Ranganathan: That's correct, extended the time period of cash flows.

Aditya: So let me clarify my question so we generally have Stage-1-2 and 3 and there would be some loss given default and probability of default assumptions behind the provisions which are built. So two parts, one could you share the LGD and PD assumptions that we are using now? I understand that change might be driven by NPV but there would be some final number and secondly the breakup of the total provision? So as of now we have the total provisioning as a percentage of NPA, how does that look in terms of Stage-3 provisions and how much as Stage-1 plus 2 provision and how much?

S. Ranganathan: Sure we will share that with you certainly now just to give you an example yes the PDs and the LGDs they have been different for different asset classification. So even within the wholesale we will have about five or six different segments of accounts and each of them will show a different behavior and different estimates and the cash flow patterns. So each of these whether a retail or wholesale will show different patterns so each of them will be a cohort by itself. So more than happy to take you through the models and as we get, you can share your co-ordinates and our PR team will talk to you about how we have looked at the various Stage-1, Stage-2 and Stage-3 provisions.

Rashesh Shah: Actually if the need is there may be in a week's time will come out with a whole, Actually if the need is there may be in a week's time we'll come out with a small presentation on how the impairment we've arrived at but Aditya what you are raising is very important and this is where the confusion on Ind-AS has there. I think the Stage-1, Stage-2, Stage-3 and the probability and the LGD and all, they work very well on retail portfolios which are not as idiosyncratic. Wholesale is very idiosyncratic an Essar Steel is very different from Alok Industries is actually very different from Ruchi Soya is very different from Binani Cement. So I think this Stage-1, Stage-2, Stage-3 and the PGD has to be individual and that is what SR is saying. They are various buckets, they are lot of assets we have where there is the recovery is going to happen. There is going to be 100% recovery on that but the time could be uncertain and that is why when you do your NPV, like what happened in Essar Steel. Essar Steel came a year late to everybody and that is where a lot of the estimates of what was the value of Essar Steel where a lot of hedge funds bought it for 80 cents to a dollars, 75 cents to a dollar. A year here and there changes your complete return on that investment. So wholesale is very in fact this is exactly the reason in last quarter we hired this international firm to do a very idiosyncratic analysis on a case by case basis because we do believe and this is a gap in Ind-AS and currently it has not been addressed because everybody, (a) I think the banks are still on the old NPA model where it's an NPA you provide 15% whether it's Essar Steel or Alok Textiles or anything else generally as a rule of thumb and Ind-AS foresees it. I think this will be the rule going forward. It's still early days because auditors and companies have not yet been adapted and we adopted Ind-AS in the middle of IL&FS and all that but I think it will have to be very individual account by account, asset by asset, cash flow that has to be modelled and then underlying on that and those will change every quarter where the interest changes as your timing changes and I think on wholesale assets the biggest delta in India according to me for collateralized assets especially real estate is not going to be the value

of the underlying but the timing of that. If you can complete a project in 2 years versus you can complete it in 5 years, your actually current estimate value of that will undergo complete change.

Moderator: The next question is from the line of from Kshitij Prasad from Kim Eng Securities.

Kshitij Prasad: Is it possible to share a gross NPA number on a Stage-3, just the Stage-3 that what it was in FY19 and what it is now like for comparison because the impairment which has on the provisions have been extremely steep. So is it possible to share that number?

Rashesh Shah: Sure it is and we have it entity wise if you want to add up we can add it up across entity. But it's mainly ECL Finance. When you look at NPA all of that it's mainly ECL Finance is the main entity, other have a very small delta on that. I think we have given that somewhere in the presentation for ECL Finance, the GNPA number would have moved up but a large part of that is because the denominator has changed and I want to just caution all the investors and analysts on this call that as we scale down the book maybe the absolute numerator number may not go up but the percentage may change and that is why it's very important that we moved away from a provisioning mindset to an impairment mindset. An impairment mind set is a more mark to market mind set, a provisioning mind set is more staged wise providing for the asset as you go along kind of mind set and we are in this confused phase in India because banks are in this NPA model and NBFCs have moved to this so what we have followed is impairment so you might not see provisioning because we have already taken impairment and sold those assets or sold them to a fund and all so it won't impact your provisioning but your denominator will come down. So the balance assets which are there will go up, we have given stage adding NPA numbers in the PPT but we can always aggregate them across books but now I think the most important one to watch is ECL Finance in fact when we talk to banks and others they all want to look at how ECL Finance ratios are shaping up, how the wholesale book of ECL Finance is shaping up, how the liquidity of ECL Finance is shaping, because ERFL, EHFL is very strong, ARC itself is very strong, EGIA asset management, wealth management are very strong, insurance is well capitalized. We think ECL Finance is also a very strong now with all the things we have done and just to ensure that in ECL Finance we always had enough capital adequacy, enough liquidity and we continued to bring the wholesale book down. So our current focus is not on NPA but reducing the wholesale book but I must caution you that as the denominator comes down, the percentage might look more but the numerator may not go up.

Kshitij Prasad: And the other question I want to ask was how has been your experience in the wholesale developers' book like obviously there has been moratorium, so what percentage of your clients have taken the moratorium as we speak? And second is like you were handholding and you were providing last mile funding to some of the projects how that has moved, a broad trend that out of so many projects these are the projects and it is like maybe April and May may not be the right but in June what has been the trend. So just from January till now what has been your experience in that portfolio?

Rashesh Shah: So actually I think the last few months have been obviously challenging but I think what we've seen in last 2 years in fact the wholesale portfolio post demonetization has been constantly

challenged for liquidity reasons but what happened after demonetization, sales becomes slow but liquidity for completing the project was not a problem. But after IL&FS sales remained okay but liquidity to complete the project became a problem there are only two risks in the project, you complete the project and you sell the flats. After demonetization sales came down but liquidity was there, so people could continue to complete the project so project never got stalled. But the sales had already slowed down. Then what happened after IL&FS is sales have been okay but the projects are facing huge amounts of liquidity crunch. When we did the partnership with the South Korean company Meritz and we moved some of the accounts out there, those accounts are doing very well because as long as the funding is available like about close to 700 crores has been kept out there for funding of those projects, they are doing very well. So we have seen that flats which are below 1 crore, if the project is getting completed there is not a problem even now, actually June has been a good month if you look at most of the numbers. April and May were obviously very slow but June has been fairly good we have seen real estate prices come down by 10%-15% across the board in the last quarter but at 10%-15% now sales are starting to pick up and June has been a good month and we do think that maybe in the next few months, COVID might be the catalyst for the housing industry, for the real estate housing industry to come back but the key is going to be completing the project and even this project the asset sales we are doing as I explained earlier we're keeping a large part of the liquidity for completing the project. We don't want to take the liquidity ourselves, we want to complete the projects so that asset quality is directly correlated with liquidity available to complete the project in all this and that is true with real estate it may not be true with others. But in almost all project finance whether its infrastructure project, whether it's anything else, completing the project is half the battle and in housing we think inventory has come down, a lot of projects are not getting completed, so even the available inventory will come down even further. So we think housing should be in a good place if the projects get completed and that is our experience even now. April and May most projects were stalled, the labour was not there. June in our portfolio almost about half the projects have started, the labour has come back and the work has started. We are hoping that by September almost 80-85% projects are back on track.

Moderator: The next question is from the line of from Rahul Bhangadia from Lucky Investment Managers.

Rahul Bhangadia: Your addendum which you have alluded to which will come in a day or two should answer all my questions per se, thank you for that. It is fair to assume now going ahead you will give data in the form of entities rather than segments on a consolidated basis?

Rashesh Shah: Yes and if the bridge is required then we can give that but a bridge is more to compare with the past I think going forward we want to be entity lead and that is what we have changed in last 1 year. We have spent on our governance, independent board in fact as a result of that the board meetings go on for one week like there is an insurance board meeting, there's an ARC board meeting, the NBFC board meeting. HFC board meeting but on the whole it is good because this allows us to really desegregate the businesses and allow them to grow on their own. So we will give it entity wise but the bridge is very easy to do we will do it in this quarter and if all of you want us to continue we can always put them in the annexure, so that the past can also be connected with the future.

Moderator: We take the next question as the last question that is from the line of from Gautam Chopra from Cameo Developers.

Gautam Chopra: Can you give us some color on the shares which are pledged as a promoter? In the current environment do you see any stress on the same?

Rashesh Shah: So the promoters I think it's an important one we also gave a disclosure couple of months ago so between Venkat and me we have now about pledged the shares at current price which are worth about 150 odd crores. Our total holding at this price combined holding should be about 32% of the total which is about 1,300 -1,400 crores is the gross value of our equity holding in the company. Out of that about 15%-17% is pledged which is valued at about 150-200 crores depending in that range. Against that our current borrowing is about 35 crores. So we have 35 crores of borrowing between the two of us now against Edelweiss shares and against the 35 crores of the borrowing total we have pledged about 140-150 crores, so we are fairly well covered and we have made sure that we don't have that risk. We've brought it down we have every quarter brought it down about two quarters ago these 35 crores was closer to 70 crores. So we have brought it down from 70 to 35 crores and we'll continue to bring it down and overall I think given the amount of holding we have our intention is we have told the investors and the board that we will make ourselves pledge free in the next four quarters and we are doing a lot of other things to make sure that even this 35 crores of borrowing goes away. Ideally, I think we have all learnt that promoters should not pledge their shares. We did that to buy shares in Edelweiss about 5 years ago so we had pledged our shares to increase our holding in Edelweiss so it was for a good cause but it is something we have to bring down. So we'll continue to do that but our current borrowing as a percentage of a holding and the current pledge as a percentage of a holding is also fairly low and we had given that disclosure a couple of months ago we will update that and also give that every quarter.

And along with that if that was the final question I once again want to thank all of you I mean it's been a very important quarter, important year for us and we do look forward to your support, your inputs as we go forward because over the years interacting with you has been very energizing for me for my colleagues also, so I hope we get more and more chance to get inputs from you because stakeholders like you are very important to us. I just want to end with a quote that I go by and I have it on my desk that I use it all the time and the quote is "you cannot control the winds but you can adjust your sails" and I think in this quarter that is what we have tried to do. We can't control the wind but we can definitely adjust our sails and I think in our history of Edelweiss this has been a key quarter where we have adjusted our sails to be in tune with the environment and also keeping in mind what we need to do going forward and as I said our idea is not to look at the next 3 months or 6 months or to look at the stock price but to do what is right is for the business, what is right for the future and we do hope that the post COVID opportunities are even more exciting than they've been up till now. So with that note I would thank you and hand it over to my colleague for her closing remarks. Ramya over to you.

Ramya Rajagopalan: Thank you very much Rashesh for the very insightful remarks and for the key questions from all of you. That was our last question and we will be drawing the session to a close. There is still

a fairly large question queue but we are doing this with the interest of time. We thank you as always for your interest in Edelweiss and please do get in touch with us for all the questions that you still have and we are very happy to take this up on a one on one basis. Thank you once again. Over to you Stanford.

Moderator:

Thank you very much. Ladies and Gentlemen on behalf of Edelweiss Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.